100 FASTEST-GROWING COMPANIES 2015 P. 97

FORTUNE

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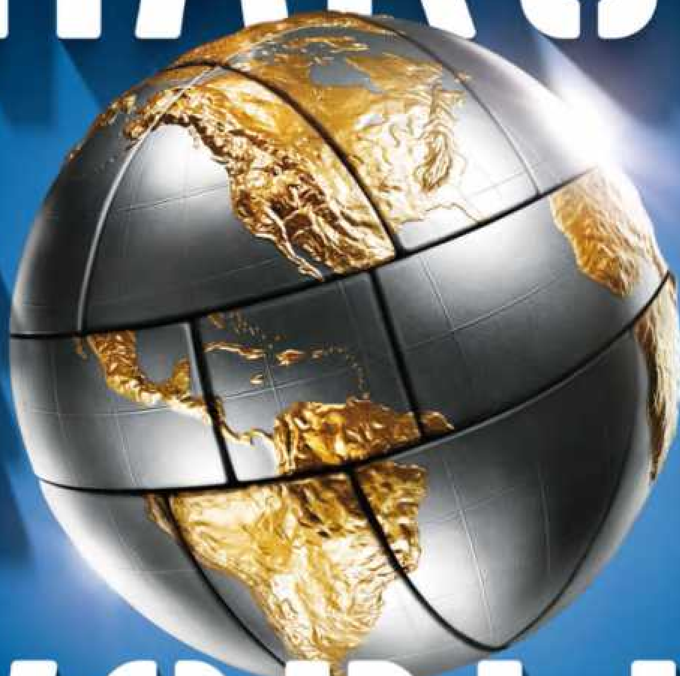


NIKE, CISCO, MASTERCARD, SABMILLER, VODAFONE, GOOGLE— AND 45 OTHER COMPANIES THAT ARE DOING WELL BY DOING GOOD.

By Erika Fry

P. 57

WHOLE FOODS' EVANGELIST FOR CAPITALISM *By Beth Kowitt* P. 76

A BILLIONAIRE TAKES ON THE WEALTH GAP *By Brian Dumaine* P. 86

Men's Split-Seconds Chronograph Ref. 5370P with intense black genuine enamel dial. Manually wound mechanical movement Caliber CHR 29-535 PS.

Volume 172 Number 3

FORTUNE

features

ON THE COVER:
PHOTOGRAPH BY THE VOORHES
TYPOGRAPHY BY SINELAB

THIS PAGE:
PHOTOGRAPH BY
WESLEY MANN

John Mackey, co-founder and co-CEO of Whole Foods Market

GROOMING BY KATE MCCARTHY FOR VERT BEAUTY

FORTUNE

Volume 172 Number 3

departments

Tehran could soon be open to Western business.

Macro

Casey of PCH International

Tech

TEHRAN: NEWSHA TAVAKOLIAN—POLARIS

Venture

Gardell of Cevian Capital

Invest

Macro

CLOSER LOOK

PICKING WINNERS IN THE RACE TO IRAN

The third-largest economy in the Middle East has a young, educated populace ready to spend. But U.S. businesses will face big hurdles in the country—if they can get there at all.

By Vivienne Walt

R**AMIN RABII REMEMBERS** the excitement one night in Tehran about 20 years ago when rumors whipped through the city that a McDonald's franchise would be opening on Valiasr Street. "I showed up there that night, and it was totally packed," says Rabii, who was 16 at the time. Police arrived at the planned restaurant site to clear crowds from the street, he recalls. But to general disappointment, the new storefront turned out to be a local imitation. The real Big Mac was still banned.

Iranians may not have to wait much longer. The nuclear deal that the U.S. and Europe signed with Iran on July 14 could slowly phase out many economic sanctions, finally allowing Western companies to sell their wares in the country and unleashing one of the world's largest untapped markets for Western business.

Iran's $406 billion economy offers immense opportunity. It's home to 78 million people, many of whom are young, educated, and well traveled, with money to spend—and not just on hamburgers. Already some

REDUX

believe there are 6.5 million iPhones—not counterfeit—in circulation, even though Apple is barred from selling products directly in Iran.

In many industries, embargoes have contributed to what amounts to 36 years of pent-up demand. Iran's national airline has planes that are on average 23 years old, and officials say they plan to spend $20 billion on 400 new aircraft over the next decade—good news for Boeing, which already provides parts and maintenance under a special permit. There are few major international hotel chains or car dealerships in Iran, which has hospitality executives and automakers salivating. And Iranian officials say they intend to invest billions in upgrading creaky oil and gas facilities, which could mean a windfall for oil-services firms.

A woman eats ice cream on a street corner in Tehran, where, in May, billboards were temporarily converted from advertisements into copies of famous artworks.

PHOTOGRAPH BY ARASH KHAMOOSHI

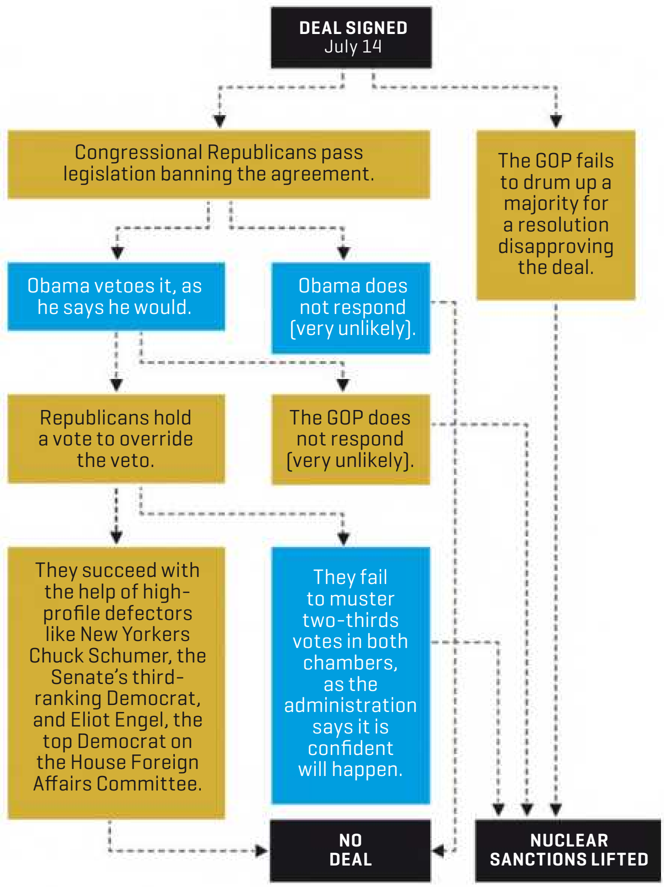
“There is not a single week when we don’t host at least one or two foreign delegations,” says Rabii, who hankered for a McDonald’s store as a teenager and is now CEO of Tehran investment firm Turquoise Partners. “They all say they want to be the first in Iran,” he says.

That seems unlikely for most U.S. companies. The new deal still faces a bumpy path to approval in D.C. (see chart), and even if it is approved, sanctions related to human rights abuses—rather than nuclear weapons—will remain in place. The big change will be Treasury allowances for foreign subsidiaries of U.S.-owned companies, as well as products related to aviation, food, and medicine.

European competitors, by contrast, look set to sign major deals quickly. Mercedes-Benz, Peugeot, and Renault have announced plans this summer to start selling to Iran’s huge auto market, with which they already have deep ties (Iran was Peugeot’s biggest market outside France until 2011). And French hotel chain Accor is set to open a hotel later this year.

But Can the Deal Make It Out of D.C.?

A FEW POSSIBLE SCENARIOS FOR HOW THE AGREEMENT TO END SANCTIONS WILL PLAY OUT IN THE CAPITAL THIS FALL.—*TORY NEWMYER*



WHO COMES OUT AHEAD IN IRAN

WINNERS

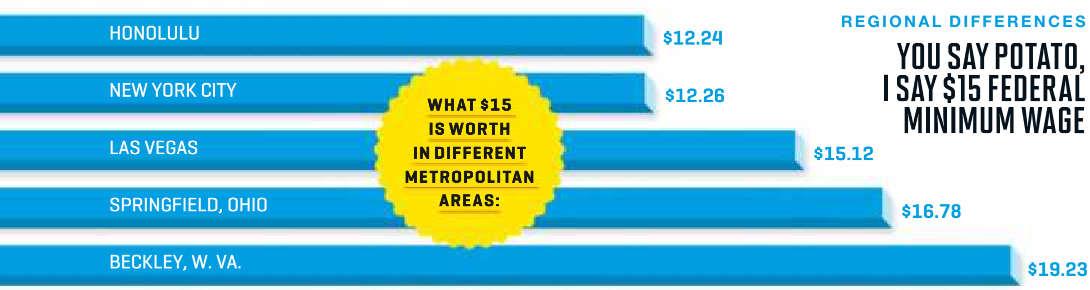
- **EU automakers:** Daimler AG/Mercedes-Benz, Peugeot, and Renault are all well positioned for Iran’s large auto market.
- **Oil-services companies:** Iran says it needs $230 billion worth of upgrades to its energy facilities, good news for Schlumberger and Halliburton.
- **Airplane makers:** Iran plans to buy 400 planes in the next decade, a boon for Boeing and Airbus.

LOSERS

- **Chinese manufacturers:** China-Iran trade was $44 billion in 2014, but Chinese companies could soon be sharing their captive market with Western competitors.
- **Russian oil and gas firms:** Iran aims to double its oil exports, which could drive down global prices and hit Russia particularly hard in its key markets of Asia and Europe.
- **Pistachio growers:** Nut growers in California have benefited from sanctions, but Iranian farmers are prepping for a big return.

Once U.S. businesses arrive they will still face major challenges. Global risk consultant Verisk Maplecroft warned clients of Iran’s “cumbersome and bloated bureaucracy as well as high levels of political interference.” It also cautions that conflict could flare between Iran’s increasingly wired, savvy youth and the powerful clerics who run the country.

Yet for all that, in late July McDonald’s posted a notice seeking franchise partners for Iran, looking for those with “high integrity,” experience, and a record of success. Iranians may soon get their Big Macs—this time for real.



REGIONAL DIFFERENCES

YOU SAY POTATO, I SAY $15 FEDERAL MINIMUM WAGE

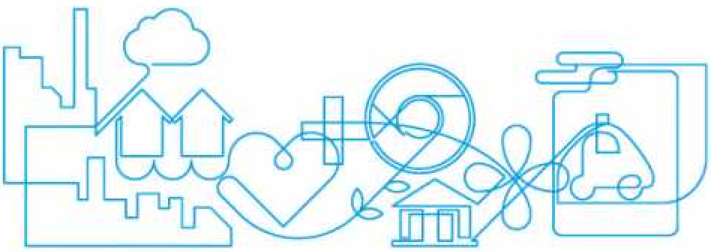
RAISING THE MINIMUM WAGE to $15 an hour sounds pretty good. Pew’s latest poll says 73% of Americans agree. But there are big variations between what $15 buys on average in the U.S. and what it buys in West Virginia (a lot), or New York (not much). A nationwide $15 minimum would be disproportionately burdensome on rural businesses. New York politicians may like it, but what’s good for the Big Apple may be bad for the country.

CHART SOURCE: PEW RESEARCH CENTER

BUSINESS MODELS A TO Z

A Look at Google's Plan B... and C and D

In August, Google co-founder Larry Page made a surprise announcement that the search giant would soon be a part of a holding company called Alphabet. That probably won't mean much for its core advertising business, which already rakes in $59 billion a year. But its impact on Google's other businesses is an open question. Investors will see what the non-search divisions together are making (or losing), and that could put pressure on some of the further-afield enterprises to turn a profit, or at least solidify business models that don't rely on ads. Here, our take on what those models could look like. —*Stacey Higginbotham*



GOOGLE FIBER

Google's goal to bring faster broadband to the U.S. has already borne fruit. It currently operates in Austin, Kansas City, and Provo, Utah, with at least six other cities set to launch soon. The service gives the company another touch point for Internet users, and former Google CFO Patrick Pichette has said Fiber is a profitable business. Already other network giants like AT&T and Comcast are launching their own gigabit fiber services in select cities.

CALICO

Top geneticists, molecular biologists, and doctors are working at Calico to figure out a way to extend human life, or in Google parlance, "solve" death. If it works it has obvious commercial prospects, but the company has so far been hush-hush about the business model. A clue? Last year it signed a $1.5 billion R&D partnership with pharmaceutical company AbbVie to create new treatments with the drug giant.

NEST

Nest has tripled its employee count to 1,000 since Google bought it last year for $3.2 billion. The connected-home company makes money selling hardware (connected thermostats go for $249), as well as leasing cloud storage for videos from Nest Cam, its home-security camera. And it still has plenty of room to grow: Potential future services range from more expansive storage plans to working with insurance firms that want to make sure their customers' smoke alarms are working.

INVESTMENTS

Google has two investment arms: Google Ventures, which was created in 2009, has backed more than 300 companies, with a notable early investment in Uber. Google Capital, its growth equity fund (see story on page 25), focuses on later-stage companies and has stakes in SurveyMonkey, Glassdoor, and Crowdstrike. The creators of Google Ventures and Google Capital, Bill Maris and David Lawee, respectively, are likely to lead them as Alphabet subsidiaries.

GOOGLE X

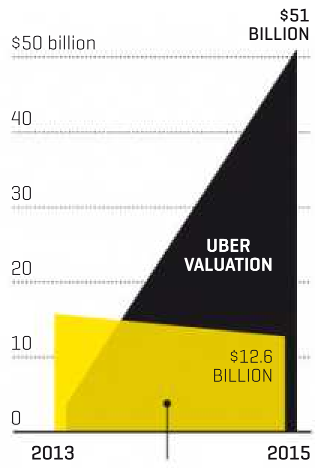
Self-driving cars, glucose-monitoring contact lenses, and other "moonshots" reside in Google X, which makes this the company's biggest money pit—and biggest potential jackpot. Its chief, Astro Teller, has said that tech it developed for Google already generates enough cash to cover the lab's expenses, and future revenue streams could include licensing and partnerships. But much to investors' chagrin, making money never seemed like the primary goal.

ILLUSTRATIONS BY MARTÍN LAKSMAN

MACRO

CABS VS. UBER

A LITTLE CONTEXT FOR THE TAXI WARS



GRAPHIC SOURCE: NYC TAXI & LIMOUSINE COMMISSION; TOTAL VALUE IS A FORTUNE ESTIMATE BASED ON AVERAGE MEDALLION SALE PRICES.

CLEANING UP

A NEW WAVE OF DEFENSE DEALS

The $9 billion acquisition of Sikorsky Aircraft by Lockheed Martin in July was the industry's largest in 20 years—since the end of the Cold War triggered mass consolidation in the space. But Lockheed's less splashy announcement at the time was just as important: It wants to sell or spin off its $6 billion government-services businesses. It's not the only giant trying to exit the $282 billion government-services industry (which provides things like IT, computer systems, and cleaning to the public sector). As budget cuts slash government-services revenue, expect consolidation to shrink the number of major players by 50% in coming years.


A STAR ALLIANCE MEMBER
Hard deadlines.
Rough day.
Smooth finish.
Air travel engineered around you
Nonstop you
Make your time with us all yours. Because we engineer your travel experience to be exactly what you need it to be from the last checked email to your first taste of relaxation. Lufthansa wants you to sit back and enjoy your trip even before you arrive at your destination.
Lufthansa
LH.com/us/nonstopyou

RAW DATA

SUSHI IN AISLE FOUR

$705 MILLION

SUSHI SALES AT GROCERY STORES OVER THE PAST 12 MONTHS. YEAR TO DATE, SUSHI HAS MADE UP 3% OF ALL GROCERY-STORE DELI SALES.

27%

INCREASE IN GROCERY-STORE SUSHI SALES OVER THE PAST FOUR YEARS.

62

PEOPLE AFFECTED BY A SALMONELLA OUTBREAK THIS YEAR LINKED TO TUNA ROLLS.

RETAIL

U.S. Stores Are About to Pay Up for Security

RIGHT NOW, if someone steals your credit card information, it's a cinch for thieves to use it to make a counterfeit card. If that happens and they buy, say, a diamond necklace, your bank is on the hook to pay the damage. But not for long. Starting this fall, it will be individual stores (or jewelry dealers) and their insurers that will have to pay the bills for counterfeit credit card fraud. And many retailers are very, very unhappy about it.

The new rule, or "liability shift," will take effect on Oct. 1.

NEW RULES ARE MAKING CARDS MORE SECURE, BUT FRAUD MAY BE A STEP AHEAD.

It's meant to encourage retailers and banks to adopt securer payment technology: EMV chip-enabled credit cards and card readers, which render criminally crafted cards—ones that use stolen magnetic strip data—ineffective. If banks issue the securer cards, then they're no longer responsible for counterfeit fraud. If retailers install the new card-reading systems, then the liability shifts back to the banks.

The problem is that the upgrades are expensive (the cards and card readers will cost a collective $6.8 billion, according to Javelin Strategy and Research). And they won't solve everyone's woes—especially the stores'.

"It's causing some consternation in the retail community," says Mallory Duncan, head of the National Retail Federation. "We're being asked to improve the flaws in [the banks'] system," he says of the billions that retailers will pay for new card readers. (Visa, for its part, points out that the new cards will be an investment as well.)

But there's an even pricier problem looming: The counterfeit fraud prevented by chips in stores is all but guaranteed to shift online. Javelin estimates that "card-not-present" fraud will explode from $10 billion last year to $19 billion in 2018, when the equipment upgrade should effectively be completed. That's a 90% surge. And merchants will, as always, have to cover the costs of digital scams.

So, the dilemma: If a retailer shells out for new gear, the investment will do nothing to stave off fraud growing quickly online. On the other hand, if the retailer skips the upgrade, then it could become the weakest link in the fraudster food chain, effectively painting a bull's-eye on its back.

Neither option is appealing for stores. "Merchants are at the short end of the stick," says Gartner analyst Avivah Litan.

The bright side? Americans will get in-store security upgrades that are long overdue. The U.S., with its complex ecosystem of competing parties and interests, is one of the last developed countries to adopt EMV chip technology. The U.K., Australia, and Canada have already done so *and* added an extra layer of security: a protective PIN, known only to each cardholder, that must be entered to authorize transactions. China went a step further, pushing contactless payment cards that use a tap instead of a swipe or dip.

That may be cold comfort for merchants facing down online card fraud, though, where the deck is decidedly stacked against them. *—Robert Hackett*

GRAPHIC SOURCES: NIELSEN PERISHABLES GROUP FRESHFACTS, CENTERS FOR DISEASE CONTROL AND PREVENTION; ILLUSTRATIONS (FROM LEFT): MARTIN LAKSMAN; SÉBASTIEN THIBAULT/ANNA GOODSON

GLOBAL POWER PROFILE

Storming the Field

THE NFL'S FIRST FEMALE COACH HERALDS A SEA CHANGE IN PROFESSIONAL SPORTS. *By Daniel Roberts*

A **LITTLE OVER A YEAR AGO** the country's four major sports leagues had exactly zero female coaches. But last August, the San Antonio Spurs hired Becky Hammon as an assistant coach, making her the first woman to coach in the NBA. And in July, the NFL broke its own gender barrier, when Jen Welter joined the Arizona Cardinals.

It may seem shocking to imagine a woman coaching in the most macho of pro leagues, but Welter's résumé is custom-tailored for the job. After a rugby career at Boston College, she played pro football for 14 years, first as a linebacker in the Women's Football Alliance, then as a running back in the men's Indoor Football League. (Welter was the first woman to play a position other than kicker on a men's pro team; she also coached in that league.) Along the way she earned a master's in sports psychology and a Ph.D. in psychology.

Welter says what's most surprising is that women are only now being added to the coaching roster. She points to Nancy Lieberman, the most dominant woman in basketball in the 1980s, hired in August as an assistant coach by the Sacramento Kings. "Look at what she did and when she did it," Welter says. "And yet it's taken this long for Nancy to work in the NBA?"

Welter played 14 seasons of professional football before joining the Arizona Cardinals.

For Welter, the case for gender parity in coaching is pragmatic: Good leaders teach their team members, often by providing a viewpoint that they lack. "It's about offering players the best variety of perspectives," she says. "And that might come from males and females working together."

The NFL desperately needs women's perspective. Its powerful commissioner, Roger Goodell, narrowly survived a public relations disaster last year when domestic-violence cases implicated several players. The scandals highlighted gender problems in America's most lucrative sports league (the NFL generated $7.2 billion in revenue last year). Women's apparel is the NFL's fastest-growing merchandise segment, and 48% of its viewers are women, so alienating them isn't just bad PR; it's bad business.

Welter's title is assistant coaching intern, and she's still vying for a full-time gig, but she has a chance to wield real influence in the league. That will mean an adjustment for players accustomed to dealing exclusively with men, says Lawyer Milloy, who played for 15 years and won a Super Bowl. "Certain things are going to be different when she walks by—their language, things like that."

But Welter says her leadership depends as much on what she has in common with players as it does on their differences. As a former player, she understands that star athletes can tune out their coaches. "I was quite a knucklehead," she says of her time on the field. "I was talented, and I knew it, and I probably didn't listen to coaching as much as I should have." Today, she's able to see and explain the difference good coaches can make. "I've said to these guys, 'If I ride you, it's because I see your potential. I don't care how good you are. Could you be any better?'"

The NFL could certainly be better. Hiring the best person for the job, instead of the best man, is a start.

WELTER: CHRISTIAN PETERSEN—GETTY IMAGES; HELMET: RAYMOND BOYD—GETTY IMAGES

1

BLACK BOOK: SEE COPENHAGEN IN A DAY

How to fit design, culture, and cuisine into a quick tour of Denmark's capital. *By Adam Erace*

ANDERS RUGGIERO has many tasks as the head concierge at Copenhagen's historic Hôtel d'Angleterre, but his main task is "creating memories. This is one of the key functions in the hotel," explains Ruggiero, who also serves as the head of the Danish concierge union. Here are his tips to make the best memories while visiting the city by the sea.

• **Best new restaurant** No. 2 has modern Danish cuisine and a beautiful terrace overlooking the city. It's a nice, affordable site to have lunch at while surrounded by all the life of the harbor and boats passing by.

• **Reservation hack** If you're staying with us, let us know far in advance if you want to eat at Noma. Sometimes we can get a reservation the very same day because of cancellations. The private dining room is easier to book, so larger parties may have a better chance.

• **Backup plan** If you can't get into Noma, there are many other great restaurants in Copenhagen. AOC, which just earned its second Michelin star, has a very talented chef, Søren Selin, and Denmark's best sommelier.

2

[1] Copenhagen's harbor; **[2]** Noma is known for a unique take on Scandinavian classics and is often named among the world's best restaurants.

• **Watering hole** Ruby Cocktail Bar is located across the canal from Christiansborg Palace in an old apartment building. It has lounge tables, a nice courtyard, and seating in the basement, which is an old bank vault. I like the whiskey sour with rye whiskey, one of the best ones in Copenhagen.

• **Water activity** You can wakeboard and water-ski in Copenhagen Cable Park. If you're a small group, a private boat charter along the coastline is a great way to see the city. You can also visit some of the islands between Denmark and Sweden and have a picnic lunch on the boat.

• **Under-the-radar museum** Everybody knows about Copenhagen's modern art scene, but I love the Ordrupgaard museum, which has classic paintings. It's in a park and has a great selection of French painters from the Golden Age set amid modern buildings, including the famous Finn Juhl House.

• **Urban escape** I grew up in a charming fishing village called Dragør. It has small yellow houses and brick roads. Go to the beach or to the harbor and walk around the old fishing boats. You can have an ice cream at one of the ice stalls or try a waffle.

• **Locals' secret** Not many know about Vaernedamsvej, a little French street I really enjoy visiting. There are small, lively cafés and nice restaurants; it's like the center of the city being brought to Paris.

• **Must-have souvenir** A wood carving from Danish designer Kaj Bojesen. He carves monkeys, birds, and soldiers, and his designs are sold at various shops around Copenhagen, including Illums Bolighus.

THE **$10,000** DAY

WE ASKED RUGGIERO TO PLAN A SINGLE SPECTACULAR DAY IN COPENHAGEN

"Our private car will take you to a helicopter landing, where you will depart for a one-hour sightseeing flight that covers the main attractions, including the beautiful castles north of the city. Then you will enjoy a five-course gourmet lunch near the harbor at Restaurant Studio by head chef Torsten Vildgaard, followed by a private yacht tour along the coastline toward Elsinore and Kronborg Castle. Stop along the way at Hven, an island in the strait between Denmark and Sweden, for a short bike ride to a distillery known for the best whiskey in Scandinavia. Then onward to Elsinore for a private tour. On the way back to the city you will stop for dinner at Sletten, a restaurant located in Sletten Havn in Humlebaek. After dinner you will return to Copenhagen by yacht for evening refreshments."

For a longer, interactive version of this story go to fortune.com/blackbook.

COPENHAGEN: HAGENS WORLD—GETTY IMAGES; NOMA: COURTESY OF MIKKEL HERIBA—NOMA

ILLUSTRATION BY MARTÍN LAKSMAN

MORNING COMMUTES
ARE EASIER
AFTER A WEEKEND
OF LONG DRIVES

MAKE MONDAY BETTER
BOOK A WESTIN WEEKEND

Official Hotel of The PGA of America.
Enjoy more time on the green with
3pm late checkout* on Sunday.

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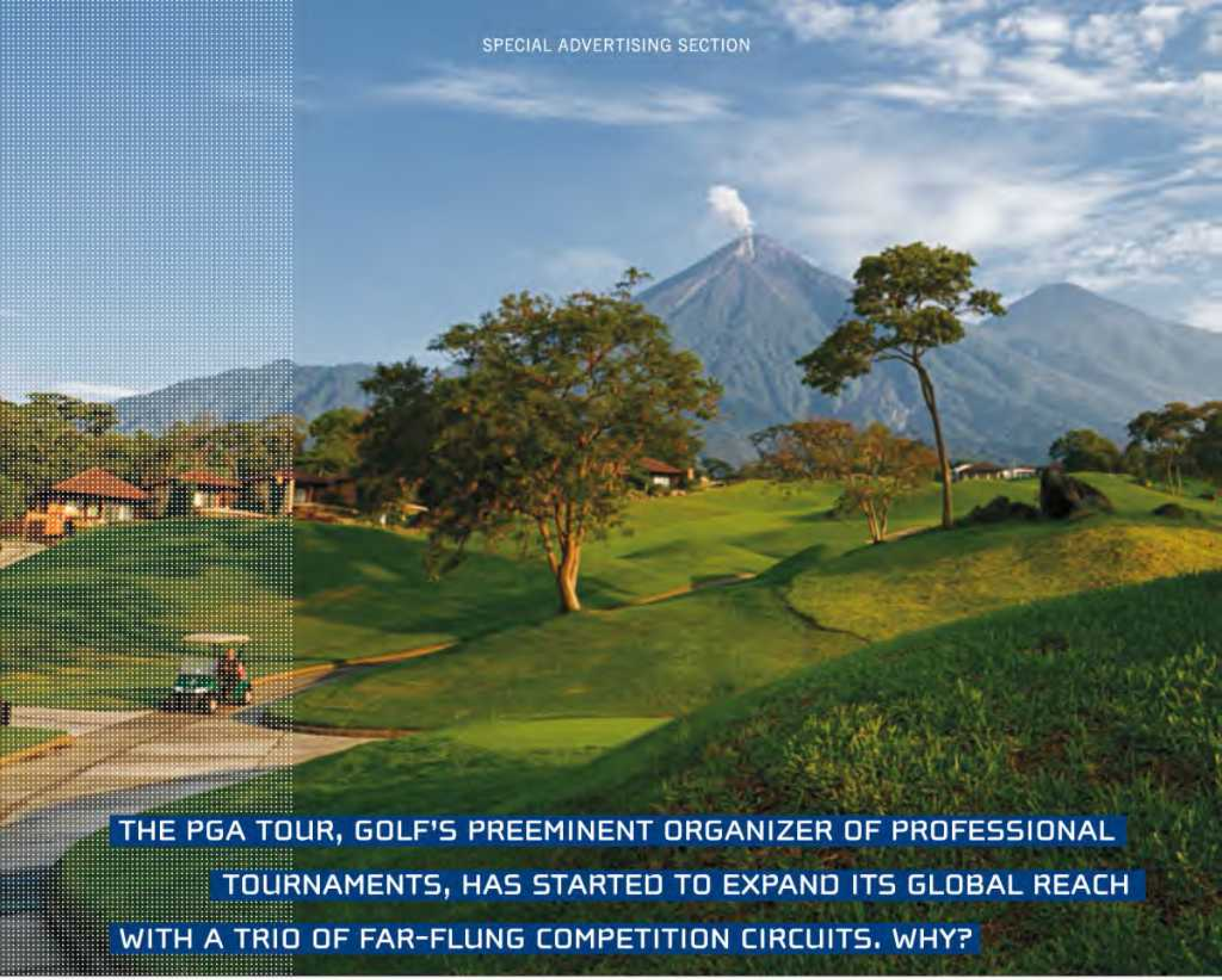


ALL PHOTOS: ENRIQUE BERARDI/PGA TOUR

THE PGA TOUR, GOLF'S PREEMINENT ORGANIZER OF PROFESSIONAL TOURNAMENTS, HAS STARTED TO EXPAND ITS GLOBAL REACH WITH A TRIO OF FAR-FLUNG COMPETITION CIRCUITS. WHY?

WORLD TOUR

The PGA TOUR is best known for its eponymous flagship tour, where Rory McIlroy, Jordan Spieth, and Tiger Woods ply their trade; the Web.com Tour, whose top 50 performers earn promotion to the TOUR; and the over-50 Champions Tour. Recently, the Ponte Vedra Beach, Fla.–based organization has doubled this portfolio, expanding its already considerable global reach. In 2012, the PGA TOUR Latinoamérica launched, followed the next year by what's now the Mackenzie Tour-PGA TOUR Canada, and, in 2014, the new PGA TOUR China, a partnership between the TOUR, the China Golf Association, and event promoter China Olympic Sports Industry (COSI). Paul Johnson, PGA TOUR's executive vice president, international business affairs, explains the driving forces behind the growth.

GUATEMALA. THE SECOND ROUND OF THE GUATEMALA STELLA ARTOIS OPEN, WHICH TOOK PLACE AT LA REUNIÓN GOLF RESORT IN ANTIGUA, GUATEMALA.

Professional golf is already a global game with global stars. So how do the PGA TOUR's new international circuits fit in with the existing international business strategy?

The PGA TOUR believes that our international growth is a very big opportunity. If you look at the macroeconomics, 75-80 percent of world economic growth is outside the United States. There is also a great deal of middle-class growth happening in China and India, among other countries, and golf generally tracks very nicely with middle-class growth. People take up the game when they have a bit more income and leisure time.

The U.S. is a great market—it's roughly 50 percent of the worldwide golf market—but there are other great markets outside the United States where we are going to put more of our attention to try to accelerate our growth. The fact that we already have a global brand and a global sport—golf has been played around the world for a long time—puts us in a pretty nice position.

And all boats rise with a rising tide.

Anywhere we see an opportunity to grow golf, it's good both for the sport and for us. The No. 1 objective of the tours in China and Latin America is to grow golf. No. 2 is establishing a high-level, high-quality professional tour where sponsors know they're going to get value. The third objective is to build a pathway for players from those regions to be able to move up—to evolve their games and reach the global stage. That's why the season's top five players on each of those tours advance to the Web.com Tour, where they get the chance to reach the PGA TOUR.

Why is that important when the PGA TOUR already creates global stars like Rory McIlroy, Jordan Spieth, and Tiger Woods?

If we have great players from China or Brazil, it will help us build fan bases back in those countries. Global players do help grow golf around the world, and we can do this without a local star from every country, but we also know that local stars add fuel to the fire. Michael Jordan helped make the NBA very popular in China. Then Yao Ming came along, and that accelerated everything.

These foreign tours also must have relationship-building aspects, too.

As we look to an ever more globalizing world, the tours do give us a great opportunity to build relationships in the regions and to collaborate with their golf-related organizations, whether they are golf federations, promoters, or sponsors. We probably knew most of these people already, but now we get to work more with them side by side, building a bigger knowledge base about these markets and stronger, deeper relationships.

Most of the PGA TOUR's corporate sponsors are global companies, so presumably they are pleased with your international strategy?

Not all of our PGA TOUR sponsors are global sponsors, but most are. They've been very supportive of the idea. Our sponsors increasingly want to do things with us beyond what they can do in the U.S. This isn't the only way we can do that, but it is a start.

Mackenzie Investments just signed on as the umbrella sponsor of the entire PGA TOUR Canada. How is Canada different from PGA TOUR China and PGA TOUR Latinoamérica?

China and Latin America are high-growth markets, both from an economic and golf standpoint. Golf is popular but tends to be played by a smaller subset of the market than in the U.S. or Canada. Canada is a very affluent market with the highest golf participation percentage of any country in the world. It's a more developed, mature marketplace. We wanted to support

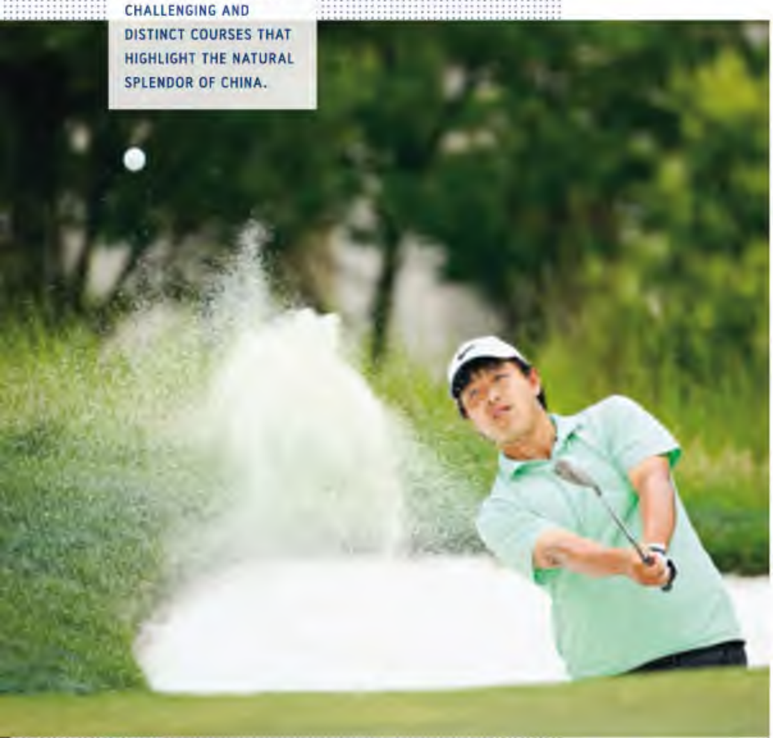
Canada because the former Canadian Tour needed some help, and we saw an opportunity in a very appealing market that fit our strategy.

How have these new tours fared? Are you pleased with what you've seen?
Absolutely. Starting from scratch four years ago, we went from $1.6 million in total tournament purses on PGA TOUR Latinoamérica in its first year to $7.8 million across all three tours this year. We've gone from 11 tournaments on the Latinoamérica Tour to 18 this year. In Canada, we've gone from nine tournaments to 12, in what's a short golfing season. Tournament purses also rose by 17% last year to this year in Latin America and Canada, from $150,000 to $175,000 each. We launched in China last year and, remarkably, went from zero tournaments to 12 in four months, and we will have 13 events this year. Throw in the 10 qualifying-school events for players to try to reach these tours, and we're running more than 50 events between them. From a competition standpoint, that's a nice ramp-up for players. Within the tours, the most important thing is quality and stability, which we feel we've achieved.

What are the key business challenges as they relate to these foreign tours?
I think the biggest challenge any company faces as it starts to globalize is trying to figure out the right way to localize what you do. We believe PGA TOUR standards are very high. We want to have high-quality tournaments and leverage all the experience and knowledge we have to raise the level of play and the level of presentation of these tours. We're doing those things, but you also have to have some flexibility. You're not in the United States. We need some flexibility to work within the local culture and within the way local sponsors want to work. The way we do things is valuable, but we sometimes have to modify it slightly to make sure that we are resonating properly in the market.

Are there any differences in co-running the PGA TOUR China versus the Canadian and Latin American tours, which the TOUR operates on its own?
We definitely have a different model in China. In Canada and Latin America, it's all PGA TOUR employees. We control the tours directly. In China, we believe the best model is to partner with somebody locally. We would have struggled with language and culture and everything else. So for PGA TOUR China we have a three-way agreement between ourselves, the China Golf Association—the government ministry that controls the sport there—and a company called China Olympic Sports Industry. They are essentially an event promoter that has the team to run the tournaments, work on the media stuff, and generally make things happen. We did open a PGA TOUR office in China before we launched the tour, and have a team member,

CHINA.
EUGENE WONG, A FORMER OREGON DUCK AND PAC-12 GOLFER OF THE YEAR IN 2012, COMPETES ON BOTH PGA TOUR CHINA AND MACKENZIE TOUR-PGA TOUR CANADA. PGA TOUR CHINA FEATURES CHALLENGING AND DISTINCT COURSES THAT HIGHLIGHT THE NATURAL SPLENDOR OF CHINA.



Greg Carlson, embedded in the PGA TOUR China team as the tour's executive director. He basically runs the tour from our standpoint and works very closely with our Chinese partners, like those three entities are one team.

It sounds like maintaining brand consistency is top of mind, and a key challenge.
The PGA TOUR is a very powerful, global brand. Anywhere we go worldwide, people get it. They get our players, and they get our brand. It stands for quality and a premium experience. We work hard on coordination and consistency with the brand, because people have high expectations for the quality of the product. I make sure my team is talking to each other about the way we're doing things, and we are very closely coordinated with chief marketing officer Ty Votaw and his team, particularly on brand standards—making sure that everything we do fits within the family of brands. It takes some effort to be coordinated, but it's definitely working. The fans get it, the players get it, the media partners get it.

These international tours must broaden your media opportunities as well.
Yes, we absolutely see the chance to build the media side of our business further. We believe there is big growth on the "business" side of our business—the media side and the sponsorship side, on top of the competition side. We have global television distribution of a billion households in more than 220 countries and territories, but there is still more we can do. It could be more shows and highlights. We can do more in the digital space. We can also do more customized content.

CANADA.
THE 18TH HOLE AT THE DAKOTA DUNES OPEN, IN SASKATOON, SASKATCHEWAN. THE OPEN IS ONE OF THE OLDEST TOURNAMENTS IN CANADA.

Such as?
Hao Tong Li is a Chinese player who came off the PGA TOUR China last year onto this year's Web.com Tour. Because we have an office in China, and relationships there, we've collected extra information about Li, including interviews, and packaged it up and sent it to the media contacts we work with in China to promote him in his home country. That's not rocket science, but it grows interest in golf, grows the fan base, and grows the business—and it wouldn't happen without having our office and the tour in China. If you look at the composition of the players on the PGA TOUR, approximately 80 are from outside the U.S. In a perfect world, we'd promote every one back in their home country. We're in the early stages of trying to do more on that front. There is so much opportunity there.

You mentioned the NBA. What do you see as you look at the global sports landscape? The NFL has committed to playing regular-season games in London, for example. Have other sports learned something from the PGA TOUR, which has tournaments around the globe? What are you learning from other sports?
We look at other sports very closely, particularly the other U.S.-based sports and how they've globalized. Every one is at a slightly different stage, and we try to learn from both the positives and the pitfalls. I'd say we're different from the NFL, NASCAR, and even Major League Baseball in that, while those sports certainly have pockets of strength around the world, they aren't necessarily embraced globally. The NBA is much more a global brand, as we believe that we are, and we see some similarities. If you're a great basketball player anywhere in the world, you want to play in the NBA, and the same is true for golf—you want to play on the PGA TOUR. The NBA has a global strategy and commitment, and they've moved to global implementations. That takes resources and investment, and that's basically where the PGA TOUR is now, looking very hard at that. While we don't have the resources yet to localize it as well as we'd like to at the moment, we're working on a timetable for that because we believe global growth presents a tremendous opportunity for the PGA TOUR.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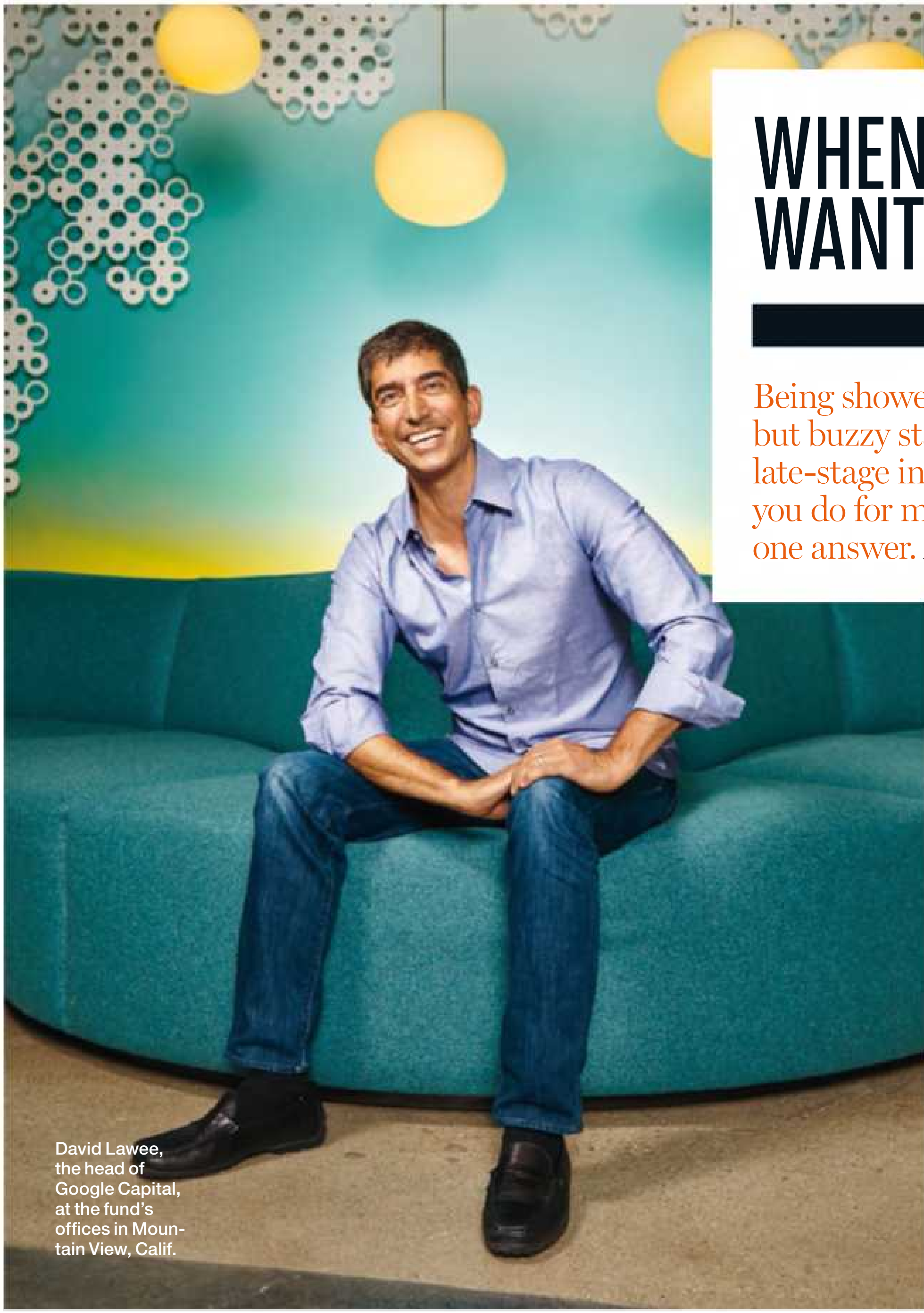


David Lawee, the head of Google Capital, at the fund's offices in Mountain View, Calif.

PHOTOGRAPH BY BRAD WENNER

WHEN UNICORNS WANT MORE

Being showered with cash is nice, but buzzy startups are now asking late-stage investors, "What else can you do for me?" Google Capital has one answer. *By Erin Griffith*

IN RECENT years, even some of the most scorchingly hot startups have grown hesitant to brave the transition to public markets. They've been staying in the nest well past infancy, achieving a sort of sheltered adolescence, trading the traditional IPO for multiple helpings of private capital.

That in turn has affected what they're seeking from the people who invest as the startups mature. Now it seems that what the most rarefied cadre of

young private companies—the so-called unicorns, with valuations of $1 billion or more—want from the swarms of eager venture capitalists is something more than cash. They're increasingly asking late-stage investors, "What else can you do for me?"

Google Capital is answering that demand. The search giant's $300 million growth-equity investment fund touts itself as a bastion of Google-ified resources for startups of a certain age.

Sure, VCs have always nurtured the fledgling enterprises they invest in. Newbies need help with the basics, like creating a human resources department or Marketing 101.

But unicorns, and startups that are about to get their horn, need guidance on thornier, higher-stakes problems, like hatching an international strategy or dealing with regulatory scrutiny. Take Renaud Laplanche, CEO of online credit site Lending Club. In May 2013, Laplanche had lined up a nine-figure funding round from private equity investors. He didn't need more money.

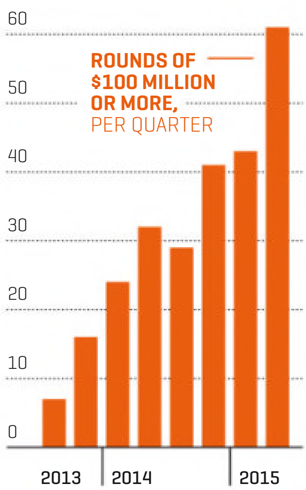
But before the funding closed, David Lawee, a partner at Google Capital (we'll call it G-Cap for short), convinced Laplanche that his firm could help. Along with providing a cash infusion, Lawee recruited experts from Google to help Lending Club with its security IT and its search-based marketing. Looking back, Laplanche calls it "the most value-added investment we ever had."

G-Cap is led by Lawee, who previously oversaw some 100 acquisitions as M&A chief for the parent company (soon to be renamed Alphabet). The 16-person unit has backed 16 companies since it launched in 2013. Beyond an early win with the 2014 IPO of Lending Club, it's too early to tell whether G-Cap's "helping hand" strategy will lead to superior returns.

G-Cap entered the advanced-stage investing game just as such deals began to proliferate. From 2010 to 2014, the number of those financings, defined as a company's fourth round of funding (Series D, in the vernacular) or later, increased nearly threefold, according to CB Insights.

MEGA-ROUNDS TAKE OFF

The number of venture-capital-backed financings of $100 million or more—most going to late-stage companies—has soared in the past few years.



That helps explain why Google created a separate fund for late-stage investments when it already had a VC arm, Google Ventures. Adding to the confusion, the parent corporation takes occasional strategic stakes. (Within the new Alphabet holding-company structure, G-Cap and Google Ventures will be stand-alone entities.)

So far, hedge funds and mutual funds, chasing pre-IPO slices of hot companies, have dominated the surge in late-stage investing. Fidelity Investments, for example, has backed Uber, Zenefits, and Hootsuite. But Fidelity and its peers are passive players. Beyond some basic IPO advice, says Andrew Boyd, head of global equity capital markets at Fidelity, "all you're getting is capital."

This is where G-Cap, which is attached to a $71 billion (revenues) organization full of experts, believes it has an edge. The team routinely taps that know-how. Already 300 Googlers have worked with G-Cap's portfolio companies. In typical Google style, the process is structured, with clear deadlines and measurable outcomes.

That expertise is what persuaded ZenPayroll CEO Joshua Reeves to choose G-Cap when raising $60 million in Series B funding in April. "No other VC firm has a pool of 30,000 to 40,000 people who would love to mentor us," he says. Moreover, their advice is up to date. "There is nothing like talking to someone who is currently dealing with these challenges and their full-time job is executing on this," he says. "[Googlers] just happen to do it at a really high scale." Within two weeks, G-Cap created 10 working teams to help ZenPayroll with things like choosing a new office location (Denver) and developing a plan to beef up its customer-service team.

When jobs site Glassdoor, a rumored IPO candidate, taps the public markets, it will tout its international growth. For that, it can thank G-Cap partner Laela Sturdy. She schooled Glassdoor on Google's rule for international growth, which states that every new feature should be shipped in as many languages as possible, even if it slows the pace of new releases. The strategy proved critical for Glassdoor, which now operates in eight countries, with 25% of its traffic and its fastest growth outside the U.S. "It's extremely convenient when you're facing a hard problem to be able to ask the question, 'I wonder what Google did on this?'" CEO Robert Hohman says.

G-Cap's advantage might not persist. Private equity firms already have armies of Six Sigma ninjas ready to parachute into portfolio companies, and firms like KKR are edging into startup territory. "As the [late-stage] market becomes more competitive," says David Weisburd, a managing director of advisory firm Growth Technology Partners, "more firms will provide services like Google Capital to differentiate themselves." ■

GRAPHIC SOURCE: CB INSIGHTS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WEED OUT ROOKIES

A company that has never collaborated with a U.S. business may not be ready to meet the quality standards you expect—especially in countries such as China—or may tend to hop from one opportunity to the next. Search for a partner that has experience in several other joint ventures and confirm that its previous collaborators were happy with how the deals turned out, advises Gordon Orr, head of China for McKinsey & Co. "You'll lower the risk of a genuine misunderstanding down the road," he says.

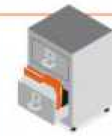
LOSE CONTROL

Be prepared to relinquish tactical decisions to foreign partners so they can move quickly on the ground. They know the local culture better than you do. That's the approach Fred Crosetto has taken at Ammex, a Seattle-based dealer of disposable gloves with $90 million in annual revenue. It has had several fifty-fifty and minority partnerships in China. "Our success has been giving them the control to operate how they had to operate," says Crosetto. You should be just as pragmatic.

5 Ways to Find the Right Overseas Partner

VERIFYING BEFORE TRUSTING AND OTHER USEFUL TECHNIQUES FOR GLOBAL EXPANSION.

By Verne Harnish



LOOK BENEATH THE SURFACE

Face time, though important, is no substitute for due diligence. Use a high-end database like Thomson Reuters World-Check or hire an investigations firm to uncover useful details such as past lawsuits. Otherwise, you risk teaming with shady partners or fakers who pretend to know the right people. "You won't know who is connected to whom," says Greg Cullison, a senior executive at Big Sky Associates, an operations management advisory firm in Charlotte and Washington, D.C.

DO A BAKE-OFF

Don't settle for a minimum viable partner because you're so relieved to find anyone who passes a background check. Try out two contenders simultaneously, recommends Alex Schroder, founding principal of Prisma Group, a business development and investment firm with offices in Raleigh, N.C., and Shanghai that helps clients expand internationally. When Schroder's firm used that approach in sourcing building materials, it quickly became clear that one supplier fell short. "Their quality wasn't consistent," Schroder recalls. "They also had some management turnover challenges." Prisma ultimately formed a joint venture with the better firm.

LET UNCLE SAM HELP YOU

The U.S. Department of Commerce's Gold Key program is woefully undermarketed but has helped many firms find credible overseas partners. For fees starting at less than $1,000, the agency will select a group of possible partners for you and introduce you to them in person or via teleconference—vetting them thoroughly beforehand. "The U.S. Foreign Commercial Service team in Mexico told me they have even conducted site visits to make sure the locals were not shell companies," says Cullison.

VERNE HARNISH IS THE AUTHOR OF *SCALING UP*.

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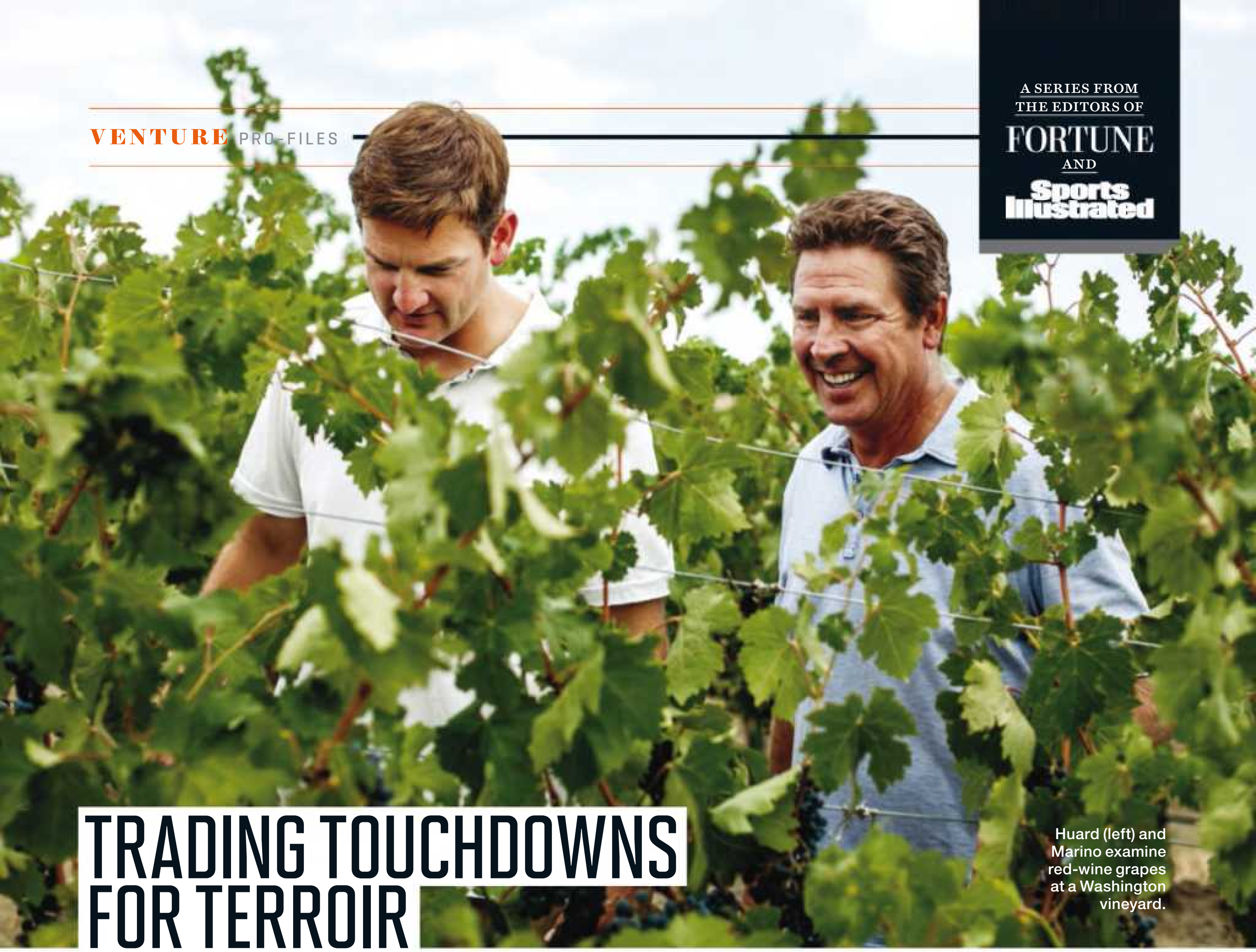


Huard (left) and Marino examine red-wine grapes at a Washington vineyard.

TRADING TOUCHDOWNS FOR TERROIR

Having backed up quarterback DAN MARINO in the NFL, DAMON HUARD now calls the plays for their new winery in Washington State.

By Ben Baskin

DAMON HUARD'S HANDS are stained a deep purple. His white polo shirt has two circular splotches of the same hue. For the past hour he has been siphoning wine out of new French oak barrels—just another day at the office.

"This is our little Napa," Huard says. It's late July, on the eve of another football season, and the retired quarterback is surveying his new, 5,300-square-foot winery with the look of a proud parent. "We're making a world-class, 94-point wine," Huard says, "right here in a warehouse in Woodinville."

Woodinville, outside Seattle, is the home of Passing Time, a winery Huard co-founded with Dan Marino, the man he once backed up for the Miami Dolphins. It's a business built on 18 years of shared passion for Washington State's wines. And while Marino brings greater fame and marketing power to the enterprise, it's Huard who runs the winery day to day.

That means frequent trips to this warehouse, which shares a strip mall with 22 other wineries. Inside, each of Passing Time's roughly 70 barrels bears a label with a seemingly random concatenation of letters and numbers, corresponding to regions of Washington, specific vineyards, varietals, and yeasts. Huard deciphers them like he's reading from a play sheet in the huddle.

"Ah, this is the fourth-leaf stuff from Champoux,"

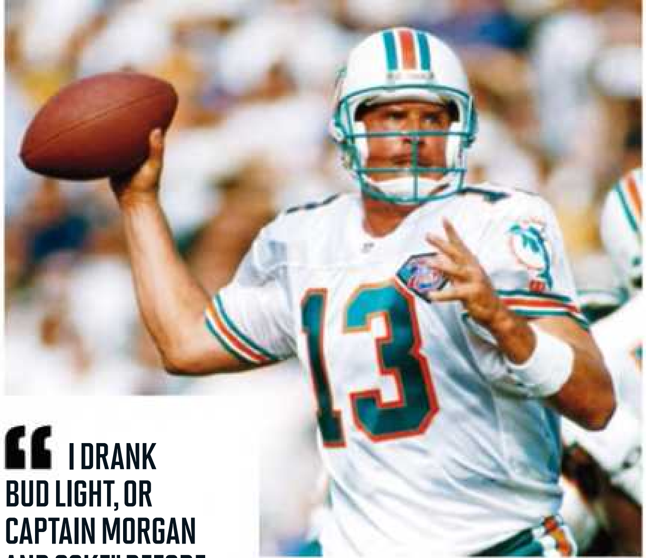
COURTESY OF CAYLEE BETTS

For more great business stories in our Pro-Files series, check out both Fortune.com and SI.com.

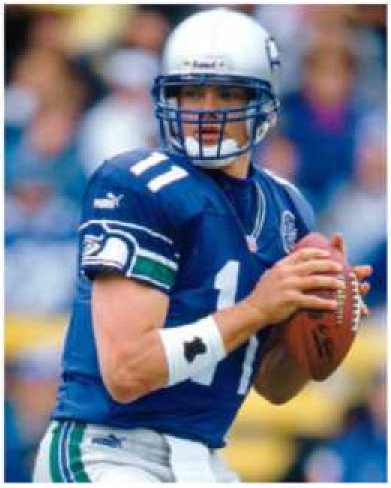
he says. “It has that floral essence, and the cocoa powder coats your mid-palate.” Huard takes a wine thief—a turkey baster, basically—and siphons some wine from a barrel into a glass. He swirls it like a sommelier and takes a sip. “This is some good s--t.”

MARINO STARTED collecting wines after being drafted by Miami in 1983. By the time Huard arrived, in 1997, Marino’s Fort Lauderdale wine cellar contained some of Washington’s finest vintages. Huard had grown up in Puyallup and graduated from the University of Washington as the school’s all-time leading passer, but he had yet to be exposed to his home state’s wines. “I drank Bud Light, or Captain Morgan and Coke,” Huard says now. “But over my years with Dan, the wine bug just hit me.”

During the next three seasons that bug became the foundation of a friendship, and the pair began to dream about starting their own winery. In quarterback meetings, they’d doodle in their playbooks, drawing different iterations of names and logos. (One rejected pairing: “Rifle Arms,” with a label of two arms entwined.) Their interest endured, and by the time Huard retired, in 2009, he had spent years cultivating relationships with Washington farmers and vineyard owners. The next year, Huard, Marino, Doug Donnelly, and Kevin Hughes joined up to invest $500,000 in Passing Time—the moniker Marino’s wife, Claire, had given their family’s beach house on Kiawah Island, S.C.



“I DRANK BUD LIGHT, OR CAPTAIN MORGAN AND COKE” BEFORE JOINING MARINO ON THE DOLPHINS, “BUT OVER MY YEARS WITH DAN, THE WINE BUG JUST HIT ME.”
—Damon Huard



Huard (right) had Washington roots; Marino (above) collected Washington wines.

Passing Time’s first vintage, a 2012 Cabernet Sauvignon, was released in April. It earned a 93 in *Wine Spectator* and a 94 in *The Wine Advocate*—ranking “outstanding” in both publications. The scores put Passing Time on the map in Washington’s $4.4 billion wine industry but certainly didn’t guarantee financial success. That’s why Huard spends much of this July day on the road. Early on he delivers three bottles to a woman staying at a nearby hotel—a mailing-list customer who happens to be in town. At lunch he orders white wine to pair with his blackened steelhead and chats with the restaurant’s manager. The conversation ends with a sale and Huard’s promise to return with six bottles of Passing Time.

Marino isn’t Huard’s only accomplished teammate. Through a client of Donnelly’s—who is also Huard’s financial adviser—the partners recruited one of Washington’s top winemakers, Chris Peterson. After Peterson finished trials of the 2012 vintage, he gave Huard and Marino some news: They had 500 cases of really good wine, but 300 cases that weren’t good enough. Peterson suggested they sell the lesser cases wholesale to another winery for use in a blend, even though that would mean losing about $200,000. Huard and Marino didn’t hesitate to sell. “If you want to make a high-end wine, you have to be ruthless,” Peterson says.

The remaining cases have sold for $75 a bottle, bringing in about $375,000 to date. Nobody takes a salary except Peterson (Huard has a day job as director of community relations for the football team at his alma mater); all proceeds go back into the company. The partners expect their 2014 vintage, to be released in 2017, to bring them closer to profitability. They’ll produce 1,200 to 1,500 cases, selling three types of Cabernet Sauvignon to showcase three famous Washington appellations—Walla Walla, Horse Heaven Hills, and Red Mountain.

“This is definitely not a vanity project,” Marino says. In an interview in New York, the Hall of Famer talks football—discussing other quarterbacks who have joined him in the 5,000-passing-yard-season pantheon—and the discomfort of retirement (“It was tough ... you have withdrawals”). But he also extols how great it is to work with Huard, a friend he trusts to run the show. “I’m good at drinking it,” Marino says of their wine with a laugh. “That’s my job. Social director and drinker.”

Back in Woodinville, Huard double-checks to make sure he put the stoppers back in the barrels correctly. Construction workers are building a huge new room that Passing Time can use for tastings and parties. Huard asks a friend if the fresh paint on the walls could have any effect on the wine. The friend assures him it won’t.

Huard cleans his glass and wine thief. He tries to find the key for the newly built addition but can’t. So he turns off the lights and walks to his car. “Oh, you know what, wait,” he says, jogging back into the building to grab four more cases of wine. “I still have deliveries to make.” ■

MARINO: PETER BROUILLET—GETTY IMAGES; HUARD: TOM HAUCK—ALLSPORT/GETTY

THE CHINA FIXER

Need a flashy new gadget designed, manufactured, and sold? Liam Casey doesn't just know a guy—he *is* the guy.

By Erin Griffith

Casey overlooking the San Francisco skyline from the roof of PCH's Potrero Hill headquarters

PHOTOGRAPH BY CHRIS CRISMAN

HIS NAME ISN'T well-known in elite business circles, but in the tech hardware scene, Liam Casey is "the guy." He's the one you call for a factory connection, the guy you hire for your packaging design, and the one you ask about FedEx negotiations. All you have to do is find him. Casey, the 49-year-old founder and CEO of PCH International, splits his time between Shenzhen, China, and San Francisco; he lives out of hotels and carries three phones set to different time zones.

Casey is the guy because since 1996 he's been facilitating hardware manufacturing for companies large and small in China, the world's largest manufacturer of (and market for) electronics. The simplest way to explain PCH (named for California's Pacific Coast Highway) is that it offers "end-to-end" services: from design to engineering, manufacturing to packaging, fulfillment to retail distribution. If you gave PCH a sketch on a napkin, the company could turn it into a product on a shelf—as it actually did recently with Drop, a connected kitchen scale. "Some people expect a 'China button,'" Casey says. "But they're looking for an end-to-end button."

With nine offices and 2,600 employees, PCH moves as many as 10 million products through the 2,000-plus factories in its network each day. Last year the company's revenue reached $1.1 billion.

PCH's clients don't want to broadcast the fact that they're outsourcing their secret sauce, so it's hard to pinpoint exactly where, and how deeply, the company is involved in the supply chains of its largest clients. Apple, for example, lists the company as one of its top 200 suppliers; Casey calls Foxconn, the famous Apple contract manufacturer, "a customer, a supplier, and a competitor."

The idea of hiring a fixer like Casey and PCH is alluring for big companies and startups alike that see the Chinese manufacturing industry as a black box packed with potential complication. We know electronics are made in China. We rarely wonder how.

That's an especially pressing concern for startups that don't know their way around a supply chain.

In recent years hardware startups have proliferated in Silicon Valley—Casey calls it a prototyping renaissance—fueled by online crowdfunding platforms that make it easy to take money and preorders, but provide little else. Consider the case of Pebble, which raised $10.2 million on Kickstarter for its smartwatch before realizing it didn't have the infrastructure to deliver 85,000 of them. It took the startup (which isn't a PCH client) more than a year to fill those orders, prompting a brutal online backlash.

Casey has gotten used to hearing from founders in distress. Sometimes it's because they've found out they designed a product that wasn't engineered for manufacturing. Other times it's after they realize they've signed one-sided contracts with big-box retailers. The calls came in so frequently that in 2013 Casey set up an accelerator program in San Francisco, called Highway1, designed to help hardware startups. The four-month program offers access to a prototyping lab, consultation with product and business experts, and a visit to Shenzhen.

"We wanted them to have something that basically protected them from themselves," says Brady Forrest, vice president of Highway1.

On Sept. 22, the program will be the subject of a new reality-TV series on Syfy called *Bazillion Dollar Club*, which follows Highway1 and a software accelerator called 500 Startups as they try to turn ideas into real companies. Unlike other entrepreneur-themed reality

THE GOODS

PRODUCTS PCH HELPED DEVELOP

FLIP VIDEO

The original pocket videocamera was a runaway hit before Cisco bought its maker, Pure Digital, for $590 million in 2009. It lived two more years.

3DR SOLO

More than 300,000 consumer drones are expected to sell this year, according to Deloitte. San Diego's 3D Robotics raised almost $100 million to make them.

BEATS

They are, in a word, everywhere. Beats Electronics is credited with turning large headphones into fashion statements. No wonder Apple paid $3 billion for it.

RINGLY

Ringly's connected jewelry flashes and vibrates when your phone receives a notification. It's a novel approach to a multibillion-dollar wearables market.

FLIP VIDEOCAMERA: MCT/NEWSCOM

TICKER TAPE
A collection of curiosities

950 million *Number of Google Android phones affected by the Stagefright bug*

"You mad bro?" T-MOBILE CEO JOHN LEGERE'S RETORT TO SPRINT CEO MARCELO CLAURE IN A RECENT TWEET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shows, such as *Shark Tank* and ABC Family's new series *Startup U*, *Bazillion Dollar Club* aims to expose the challenges involved in creating the gadgets we take for granted every day (minus any contrived competition).

"*Shark Tank* takes this pivotal time for a startup and condenses it to five to 10 minutes," Forrest says. "We want to take a step back and show how the product is actually made and how we got to this point."

The TV show will offer only a tiny glimpse of the work PCH does with startups. The up-and-comers it has collaborated with include Ringly, which makes smart jewelry; Littlebits,

> **"WE LEARN HOW TO MAKE THE THINGS THAT THE BIG COMPANIES ARE GOING TO WANT IN TWO YEARS" BY SUPPORTING HARDWARE STARTUPS TODAY.**
> *—Brady Forrest, VP, Highway1*

known for its DIY electronics kits; and 3D Robotics, a dronemaker. PCH benefits from working with startups, Forrest says. It keeps the company (and its even larger clients) nimble.

"We learn how to make the things that the big companies are going to want in two years," Forrest says. Working with wearable-tech firms like Ringly and Cue, which makes health trackers, helped PCH learn about extreme hardware miniaturization and microfluidics, respectively.

Casey himself didn't know much about manufacturing when he began working in China in the '90s. So he went to Taiwan and learned by watching. He landed early clients by finding ways to save them time. "Confusion was a competitive advantage," he quips. As PCH matured and its client portfolio grew, Casey raised venture capital—a total of $84.5 million—from a combination of Silicon Valley VCs and a Chinese backer. He acquired a company called LimeLab to offer clients design and engineering services. He added PCH Access, a program that helps startups scale up their manufacturing capabilities. And in a move that grabbed the attention of the startup world, PCH this year acquired the remains of Fab, a highflying e-commerce startup that imploded spectacularly, in order to sell PCH-made products on Fab.com.

Casey's next step: teaching Western clients some of the lessons PCH has learned from its proximity to Chinese companies, which Casey says are light-years ahead when it comes to the supply chain. Factories in China simply manufacture and ship items directly to consumers after they're ordered, Casey says; he sees a future where inventory and even warehouses are "history."

Casey believes that's one reason Xiaomi, the Chinese smartphone maker, carries a $45 billion valuation and Western hardware success stories like Fitbit and GoPro haven't topped $10 billion. "They ask, 'What's the difference?' It's mostly in the supply chain."

Kartik Tiwari (foreground), co-founder of UpDroid, with a robot his firm built with help from Highway1

ROBOT: COURTESY OF CLIFF ENGLERT

23% Year-over-year decline in daily active users for gaming company Zynga / **$2.51 BILLION** *Worldwide ed-tech investment in the first half of 2015, per Ambient Insight* / **"It's accelerating."** JEFF BEZOS ON AMAZON'S $5 BILLION WEB SERVICES UNIT

Gym Class Heroes

ONE GREAT TOOL FOR COMPANIES TO REDUCE HEALTH CARE COSTS? BIOMETRICS-DRIVEN SOFTWARE THAT ENCOURAGES EMPLOYEES TO GET MOVING. *By Heather Clancy*

THINK YOU'RE in great physical condition? Bet you can't hold an abdominal plank position as long as an employee of the Williams Cos.—let alone flex the data to prove it.

Williams, the energy company most admired by others in its industry, according to *Fortune*'s Most Admired Companies rankings, controls the flow of roughly 30% of the natural gas used in the U.S. Many of its 7,000 employees hold very physical jobs, maintaining 33,000 miles of pipes stretching from the Gulf of Mexico to Canada's oil sands.

Concerns over safety and escalating medical costs led the Tulsa company's human resources team to take action in the mid-2000s to boost employee health. The results have been impressive: For the past four years, Williams capped increases for medical-claims costs at just 1.8% annually, far below the industry average. It was also able to avoid raising monthly employee premiums.

One key driver is the deal Williams struck last year with Limeade, a fast-growing software startup based in Bellevue, Wash. Limeade is part health-data analytics engine, part employee engagement system. It tracks fluctuations in biometrics—from triglyceride levels to blood pressure to waist circumference—that could be problematic on the job, and uses them to encourage participation in fitness programs meant to nip them in the bud.

Best-in-class employers spend about $2,000 less per worker on health costs, according to Towers Watson.

For Williams, engagement has grown more popular: Almost 60% of eligible employees are registered this year, up 20% from 2014. "The timing of our programs didn't always fit schedules," says Scott Graybill, director of compensation and benefits. "We got a clear message about flexibility."

Limeade supports up to six monthly competitions at Williams. Participants submit results over the web, through a mobile app, or via data collected by fitness bands, watches, or other wearable gadgets. Why bother? An employee could get up to $300 off 2016 medical plan premiums by reaching certain goals.

This year's favorite activity at Williams was a "plankathon" that required teams to log at least 300 "planking minutes" in June. The activity was picked to reduce the potential for back and joint injuries associated with inadequate abdominal core muscle strength, a common concern for the company's workers.

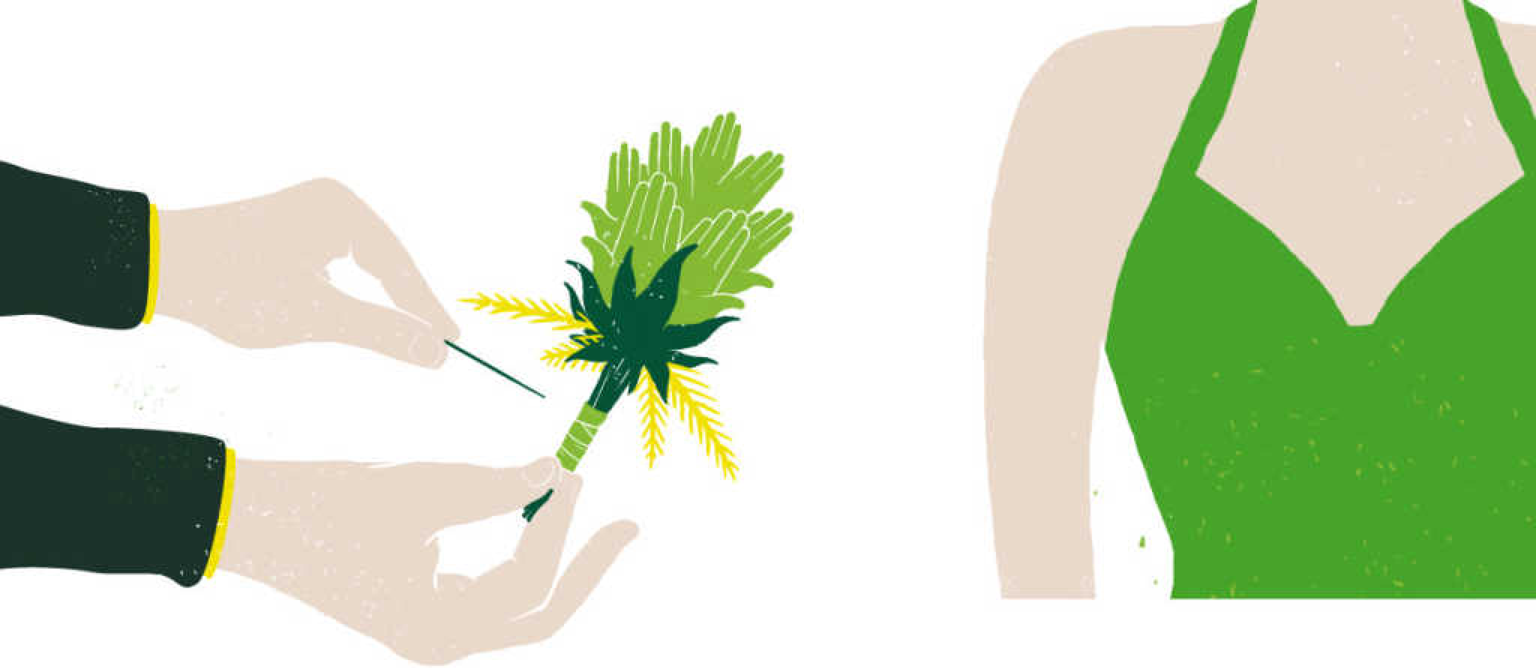
"If you can capture the essence of the culture, you have more of an opportunity to succeed," says Limeade CEO Henry Albrecht. Kohl's and VF (parent of North Face, Vans, and 7 For All Mankind) are among the startup's 160 customers.

Limeade is one of several tech companies tackling the business of benefits at self-insured employers, which constitute 30% of U.S. companies and cover about 100 million workers. Another is Jiff in Palo Alto, which serves 20 companies, including Qualcomm. At one company, Jiff tripled the number of employees using certain preventive health benefits, CEO Derek Newell says.

"This," he adds, "is the next wave of human capital management."

COURTESY OF THE WILLIAMS COS.

HUAWEI: CHINA'S FASTEST-GROWING BIG PHONEMAKER IN Q2, PER CANALYS / $108.8 MILLION *Uber's net loss in Q2 2014, according to leaked documents obtained by Gawker*



Invest

SHAREHOLDER ACTIVISM

Gardell in the Stockholm offices of Cevian Capital, the activist firm he co-founded

CASPER HEDBERG—THE NEW YORK TIMES/REDUX

THE LEADER OF EUROPE'S ACTIVIST INVASION

Activist investing is on the rise in Europe, and Swedish hedge fund manager Christer Gardell is (very politely) making some of the biggest moves.

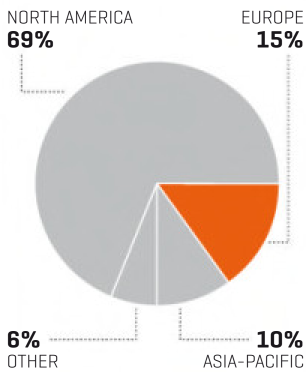
By Jen Wieczner

SWEDISH HEDGE FUND manager Christer Gardell is, arguably, the Carl Icahn of Europe. Gardell's firm, Cevian Capital, is one of the world's largest activist investors, with roughly $15 billion in assets; it's also one of Europe's most active agitators for corporate change, having targeted 15 companies since 2010, according to J.P. Morgan.

But while Gardell counts Icahn as both friend and shareholder, his style is decidedly more gentlemanly. Gardell has never written a sharply worded open letter to a company's management (a signature tactic of American activists), nor engaged in a proxy battle. Being nice hasn't dulled his impact. Just the announcement that Cevian is an investor can boost a company's shares: Swiss industrial robotics company ABB surged nearly 4% in June after disclosing that Cevian had taken a stake; Swedish automaker Volvo, which Cevian has owned for nearly a decade, has returned almost 8% in the six months since the fund became its largest shareholder by invested capital. (Cevian, which has offices in Stockholm, Zurich, and London, declines to disclose its returns but says its funds have significantly outperformed the MSCI Europe index and benchmark hedge fund indexes since their inception.)

BREAKDOWN OF ACTIVIST HEDGE FUNDS

Percentage of funds headquartered in each region.



Shareholder activism is much rarer in Europe than in the U.S.—North American activist hedge funds manage $107 billion, more than three times as much as their European counterparts, according to Preqin. But more investors are following Gardell's lead: In the first half of 2015, activists targeted 31 companies in Europe, more than they targeted in all of last year, according to Activist Insight. With growth accelerating in Europe after a prolonged recession, more investors are urging companies to become more efficient and to unlock value through mergers and spin-offs.

Fortune caught up with Gardell while he was playing in a championship tennis tournament for his age category (he's 54) in the Swedish coastal town of Båstad. Between matches, he told us where he's investing these days and why European activists are more prevalent than Americans realize. Edited excerpts of the interview follow.

What do you look for in the companies you invest in?

The strategy is to find good companies that are out of favor that we can buy cheap or that are underperforming their potential, such as **Volvo.** We bought in when they were making 4% EBIT margins, when they should be making 10%. A partner at Cevian recently joined Volvo's board, and there was also a change of management. Everyone is fully committed to get to that 10% level, and Volvo is rapidly moving in that direction.

We only do [activist investing]. We have a very concentrated portfolio of 14 positions, and we sit on the board of 10 of them. We are looking to at least double our investment value in a three-year time period. And in the worst-case scenario we shouldn't lose more than 20% of our capital. We will not invest in risky industries where the outcomes can be significantly worse, like technology, biotechnology, and pharmaceuticals. So we're in mostly service companies, industrial companies, and very specific places in the financial services industry.

What tools or strategy do you use to effect change?

We typically prefer to be the largest shareholder. In Europe, shareholders have stronger rights than in the U.S., and it's easier to put your candidates in a board seat, especially if you own a significant amount of stock. We don't have a hostile approach; we have a constructive approach. We don't start a relationship with a lecture. You don't want proxy fights or anything like that. We back up our ideas with solid arguments and solid facts.

Traditionally in Northern Europe, the largest shareholder is entitled to a board seat if they intend to be a long-term investor. For example at [industrial conglomerate] **ThyssenKrupp** and [construction company] **Bilfinger** in Germany, we've been welcomed by the board. But to fundamentally change and improve a company, you need to be there for a while and take responsibility: Our average holding period is four to five years. If you're a short-term play-in-and-play-out shareholder, you will probably not be able to enjoy the benefit of this approach.

How have Europe's economic challenges affected your investing?

The European market is not as complicated as investors in the U.S. think it is. Obviously if you go further down in the Mediterranean, it gets a little bit trickier. Our core markets are Scandinavia, Germany, and the U.K.: The corporate governance environment is not as attractive elsewhere.

There are definitely signs that the European economy is turning: Confidence is going up a bit, and there are clear signs of growth. On top of that, the M&A market in Europe, which is lagging the U.S. by about two years, is taking off. Part of our role as an activist is to suggest M&A ideas. We did that with Cookson, the British engineering company—after I took a board seat, it demerged into [chemical and industrial supplier] **Alent** and [ceramics and metal processor] **Vesuvius,** both of which we still own. Alent and another portfolio company, **RSA Insurance,** received takeover offers in July, which is quite amazing. With Alent, because we are the largest shareholder, with a 22% stake, the buyer approached us, and we are involved in structuring the deal. It's still in process, but I think it looks pretty good.

Why is shareholder activism less common in Europe than in the U.S.?

Activism is not done through media campaigns in Europe. So I think the way the U.S. defines activism would severely underestimate activism in Europe. I don't think Cevian shows up in the statistics even though we are one of the biggest activist funds in the world and do activism every day. And there are big family shareholders in Europe that take a very active role as well—the Wallenberg family in Sweden has very active positions—but it wouldn't be registered as activism because they are very, very long-term: It's not three to five years, but 30 to 50 years. ■

GRAPHIC SOURCE: PREQIN


KUBOTA
KUBOTA
10124

Make a World of Difference: Solve Problems and Serve Society

A LEGACY BEGINS WHEN YOU FIND SOMETHING IN THE WORLD YOU CAN IMPROVE, AND THEN NEVER STOP.

Forging the Future from a Drop of Water

A sobering fact of 1890s life in Japan was that the country's water was too often contaminated. And that was a fact Gonshiro Kubota was unwilling to accept. With a passion for manufacturing and a desire to contribute to society, the 19-year-old developed iron water pipes that protected people from infectious diseases. It was the beginning of a legacy. And the beginning of Kubota Corporation.

HISTORICAL HIGHLIGHTS ›

- **1890** Gonshiro Kubota produces pipes that help protect people from infectious disease
- **1960** First Kubota tractor manufactured in Japan
- **1969** Kubota tractors come to America

“Food, water and the environment are indispensable for human beings.”

So begins the Kubota global mission statement and so continues the vision of the company’s founder, 125 years after he saw something in the world he could improve. The company he founded still has a passion for manufacturing and for contributing to society. But today it is a global company that ensures reliable water infrastructure, streamlines the stable production of food, and contributes to a comfortable and sustainable environment.

Here in the U.S. Kubota has become an American success story with a 43-year track record of shaping industries, growing businesses, creating jobs and serving communities.

Kubota Tractor Corporation and its related companies never stop solving problems, never stop engineering solutions, and never stop making a world of difference.

1972 Kubota Tractor Corporation founded in California

EVERYTHING CONNECTS

Kubota’s operations are built to serve the individual and interconnected challenges of food, water and environment through its products, technologies and services.

OUR COMMITMENT TO ENVIRONMENTAL RESPONSIBILITY INCLUDES HOW WE OPERATE, NOT JUST WHAT WE PRODUCE

CORPORATE ENVIRONMENTAL MANAGEMENT

Control Chemical Substances

- Reduce the use of chemicals
- Develop and use sustainable materials
- Conserve local natural resources

Encourage a Recycling-based Society

- Reduce industrial waste
- Expand range of recyclable products
- Recycle water through membrane technology

Minimize Environmental Impact

- Conserve energy
- Maximize use of natural energy
- Reduce the amount of energy our products consume

BRAND STATEMENT

The KUBOTA Group promises to continue supporting the prosperous life of humans while protecting the environment of this beautiful earth.

For Earth, For Life
Kubota

Make a World of Difference: Go Where You're Needed

OPPORTUNITIES CHANGE. PASSION, PURPOSE AND EXCELLENCE ARE CONSTANT.

When Kubota tractors came to the U.S. in the 1960s they earned a reputation for being high performers ready to help America's farmers get more done. Today there are more precisely engineered orange machines meeting America's needs in more markets than ever before.

1976 Kubota is Japan's first Ag machinery recipient of Deming Award for quality

1988 Kubota's first U.S. manufacturing plant (KMA) opens in Georgia

1997 Kubota Engine America Corporation founded

AGRICULTURE › Kubota founded Kubota Tractor Corporation in California in 1972. It continues to strengthen its compact tractor offerings for small agriculture and the residential market today. At the same time it is entering commercial agriculture with mid-range and higher-horsepower equipment for the commercial livestock and row crop production markets.

CONSTRUCTION › Pursuing the same strategy that secured its niche in agriculture, Kubota is filling gaps in the construction industry with its compact construction equipment. At the core of Kubota's expansion are its new Skid Steer Loader, new larger Wheel Loader, and enhancements to its existing Wheel Loader line.

TURF › Kubota's products and customers work the land, even if that land is out the back door or part of a non-agricultural setting. Today Kubota's residential and commercial turf lines have more options, technology and partnerships than ever before.

UTILITY VEHICLES › Kubota once claimed "we're looking for work" in its advertising, emphasizing the daily commitment to getting things done that it shares with its customers. True to the mantra, Kubota's utility vehicles are more than just recreational in nature. They're work machines with the styling, operator comfort and durability their hard-working users expect.

2003 KMA named Georgia Manufacturer of the Year *(Large Company Category)*

NORTH AMERICAN AFFILIATE COMPANIES

KUBOTA TRACTOR CORPORATION
Torrance, California
Sales of tractors, construction machinery, mowers and UVs

KUBOTA CREDIT CORPORATION U.S.A.
Torrance, California
Retail financing of sales contracts

KUBOTA MANUFACTURING OF AMERICA CORPORATION
Gainesville, Georgia
Development and manufacturing of small-sized tractors, mowers, UVs and tractor implements

KUBOTA INDUSTRIAL EQUIPMENT CORPORATION
Jefferson, Georgia
Development and manufacturing of tractors and implements

KUBOTA ENGINE AMERICA CORPORATION
Lincolnshire, Illinois
Sales of engines and generators

KUBOTA INSURANCE CORPORATION
Honolulu, Hawaii
Underwriting non-life insurance

KUBOTA TRACTOR ACCEPTANCE CORPORATION
Torrance, California
Business of insurance agencies in the United States

KUBOTA MEMBRANE U.S.A. CORPORATION
Bothell, Washington
Sales of submerged membranes

KUBOTA CANADA LTD.
Ontario, Canada
Sales of tractors, construction machinery, engines, mowers and UVs

KUBOTA MATERIALS CANADA CORPORATION
Ontario, Canada
Manufacturing and sales of steel casting products and TXAX (brake pad materials)

DEALER NETWORK

Many of Kubota's 1,100 dealers today recall how their fathers and grandfathers took a chance on the big Japanese company with the small tractors — and over time were awfully glad they did. Today Kubota dealers connect the company, customers and communities coast to coast.

For Earth, For Life
Kubota

SUCCESS IS MOST POWERFUL WHEN IT EMPOWERS OTHERS.

There are many measures of success but for Kubota the most important isn't on a spreadsheet. It's in the lives of the people we serve. When they're more productive, efficient, safe and satisfied, we've accomplished our most important work.

2005 Kubota Membrane USA Corporation and Kubota Industrial Equipment Corporation founded

2015 "Geared to Give" philanthropy program with Farmer Veteran Coalition debuts

A Reputation Earned through Excellence

EVEN COMPETITORS USE KUBOTA ENGINES

As the No.1 builder of under-100hp multi-cylinder, non-automotive diesel engines in the world, Kubota literally powers the industry.

CLEAN(ER THAN REQUIRED) TECHNOLOGY IS THE RIGHT THING DONE BETTER

Kubota's K-CDS engines protect operators against damaging particulates and outperform both the EPA's Tier 4 Standard and industry alternatives.

IN 40 YEARS OF EARTHQUAKES THIS PIPE HAS HAD ZERO FAILURES

Kubota's Earthquake Resistant Ductile Iron Pipe (ERDIP) has withstood every single earthquake and seismic event it has been exposed to. Cities worldwide are installing ERDIP to safeguard water supplies.

TOP-SELLING ZERO-TURN MOWER IN THE INDUSTRY ›

OPEI Data

TOP-SELLING SUB-COMPACT TRACTOR IN AMERICA ›

AEM/EDA Industry Data, May 2014

TOP-SELLING DIESEL UTILITY VEHICLE IN NORTH AMERICA ›

Power Products Marketing North American Utility Vehicle Report

TOP-SELLING COMPACT EXCAVATORS GLOBALLY ›

OEM Off-Highway Research, 2011

2016 Kubota Tractor Corporation and Kubota Credit Corporation relocate to Grapevine, Texas

MOVING WITH MOMENTUM

Kubota's American journey continues with the 2016 relocation of headquarters for Kubota Tractor Corporation and Kubota Credit Corporation to Grapevine, Texas, just outside of Dallas. The move will help the brand strengthen its U.S. presence, enter new industries and set the stage for sustainable growth.

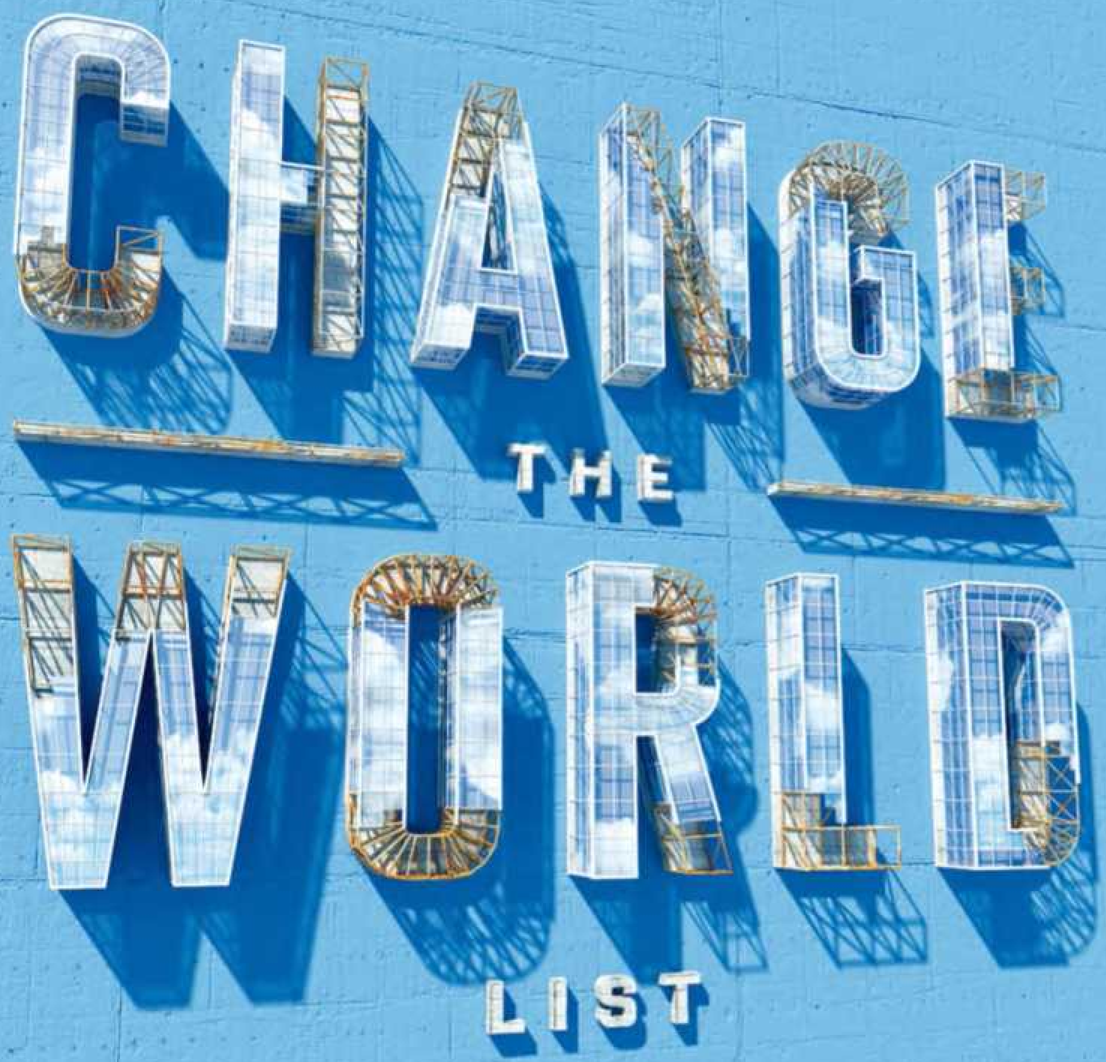
WE ARE KUBOTA

As it has from the start, Kubota believes human progress can peacefully co-exist with the preservation of our food supply, water availability and purity of air and land.

- It is the customers of Kubota who work the land for all of us.
- It is the dealers of Kubota who meet those customers' needs and the needs of their communities.
- It is the employees of Kubota who support them all by driving our business forward through innovation.

For Earth, For Life
Kubota


65°
0.2mi
US-101 N(Ventura)
8.9mi



BY ERIKA FRY

In a time when governments seem ineffectual and society is ever more divided, dozens of big companies are forging ahead to tackle the world's most intransigent problems. For anyone who's ever doubted the power of the profit motive—or thought business can't be an enduring force for good—witness the 51 companies on the pages that follow.

ADDITIONAL REPORTING BY SCOTT CENDROWSKI, JONATHAN CHEW, RYAN DALY, BRIAN DUMAINE, NINA EASTON, CLAIRE GRODEN, MATT HEIMER, KIA KOKALITCHEVA, BETH KOWITT, MICHAL LEV-RAM, LAURA LORENZETTI, BRIAN O'KEEFE, SCOTT OLSTER, ANNE VANDERMEY, PHIL WAHBA, VIVIENNE WALT, JEN WIECZNER, AND CLAIRE ZILLMAN

ILLUSTRATION BY
MUOKKAA STUDIO

LOGO: LUKE BOTT

Featuring nominations from a panel of expert advisers:

DOMINIC BARTON
McKinsey & Co.

MARC BENIOFF
Salesforce.com

BILL GEORGE
Harvard University

BOB HARRISON
Clinton Global Initiative

INGE KAUER
Access to Nutrition Index

KLAUS KLEINFELD
Alcoa

ALICE KORNGOLD
Korngold Consulting

MARK KRAMER
FSG / Shared Value Initiative

ELLEN MARTIN
FSG / Shared Value Initiative

RITA GUNTHER McGRATH
Columbia Business School

CRAIG MINASSIAN
Clinton Global Initiative

BILL NOVELLI
McDonough School of Business, Georgetown University

JEFFREY PFEFFER
Stanford Graduate School of Business

MICHAEL PORTER
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Access to Medicine Foundation

MARTIN REEVES
BCG

JUDITH RODIN
Rockefeller Foundation

JOHN STREUR
Calvert Investments

ERIC TOPOL
Scripps Translational Science Institute

MICHAEL USEEM
The Wharton School

RICK WARTZMAN
Drucker Institute

Doing Well by Doing Good

To take on the world's toughest challenges in a sustainable way, companies are turning to something familiar: the profit motive. Here, the true and best meaning of return on investment.

BY ALAN MURRAY

NOT FOR THE FIRST TIME, capitalism is under attack. The economic system that won the great ideological battle of the 20th century is facing a renewed challenge in the 21st. You can hear it in the passionate rhetoric of Pope Francis in Bolivia and see it in the crowds cheering socialist Bernie Sanders in New Hampshire. It even made its way to the privileged heights of Aspen this summer, where the *New York Times'* David Brooks reports that columnist Anand Giridharadas accused NGO leaders of praising the rich "for all the good they do with their philanthropy" while never challenging them "for the harm they do in their businesses."

The Friedmanites and Randians among us will dismiss such attacks as another misguided mutiny from the loopy left. The past two decades, they correctly point out, have delivered the greatest demonstration of capitalism's benefits in the history of man. A billion people were lifted from poverty, largely because Chinese leaders abandoned the straitjacket of equality and allowed free markets to bloom.

But many smart business leaders sense that something bigger is afoot, and recognize that they ignore such public currents at their peril. Technology and globalization, for all their benefits, have widened the wedge between rich and poor. The financial crisis of 2007–08 has underscored the system's roughest edges. The rising tide that once lifted all boats has caused a leak.

NO. 14
DANONE
Bangladeshi children eat 600,000 servings a week of its Shokti-Doi, a nutrient-rich yogurt.

COURTESY OF DANONE

Prodded by socially conscious customers and idealistic employees, as well as a skeptical public, businesses are searching for new ways to prove capitalism's power to rectify social ills. Whether it is John Mackey's "conscious capitalism" (see our feature story on page 76), the "just capital" of Paul Tudor Jones (whom we profile on page 86), Michael Porter's "shared value capitalism" (page 64), Lynn Forester de Rothschild's "inclusive capitalism," or Marc Benioff's "compassionate capitalism," the collective message is unambiguous: Your father's capitalism needs some modification.

Fortune's new Change the World list is our contribution to this trend. It is meant to shine a spotlight on companies that have made significant progress in addressing major social problems as a part of their core business strategy. It is based on our belief that capitalism should be not just tolerated but celebrated for its power to do good. At a time when governments are flailing, its powers are needed more than ever.

In doing this, we have enlisted the help of a small army of *Fortune*'s friends and mentors. The list includes some of the most thoughtful leaders we know in the corporate and nonprofit realms, as well as a number of scholars who bring both perspective and insight to the public discourse on business.

We are particularly indebted to FSG, a nonprofit think tank led by Mark Kramer and guided by Harvard professor Michael Porter, for investing many hours of their valuable time collecting and vetting nominations for the list. They have been pioneers in this effort, and we are lucky to have their assistance. While the editors of *Fortune* are ultimately responsible for the final list, we couldn't have done it without their expertise and effort.

A couple of caveats: We have made no effort here to rate companies on their overall "goodness" or "social responsibility." That's a task beyond our competence. We recognize that these are large global companies with complex operations that may be ameliorating one great global problem even as they contribute to another (and we will continue to encourage our reporters to uncover the latter). Moreover, we acknowledge that some of these companies have undertaken the actions highlighted here in part to counter public criticism for past actions that are less than laudable.

Our point is simply this: Business in pursuit of profit still offers the best hope of addressing many of mankind's most deeply rooted problems. Companies that are making genuine efforts to change the world for the better should be encouraged. The future of capitalism—and the future of mankind—depends on it.


IT ALL
COMES DOWN
TO THIS
An entire season. One champion. Delivered by FedEx.
The Barclays August 27-30, Plainfield CC, Edison, NJ
Deutsche Bank Championship September 4-7, TPC Boston, Norton, MA
BMW Championship September 17-20, Conway Farms GC, Lake Forest, IL
TOUR Championship by Coca-Cola September 24-27, East Lake GC, Atlanta, GA
FedExCup.
PLAYOFFS
GOLF
CBS SPORTS
LIVE
PGATOUR.COM
SIRIUS208XM93

↑ Customers using M-Pesa's money transfer services at a store in Nairobi. The mobile-payment service now has 17 million users on three continents.

TREVOR SNAPP—GETTY IMAGES

VODAFONE AND SAFARICOM

Connecting the unbanked masses to the global economy

UNITED KINGDOM / KENYA

NO. 1

U.K.-based Vodafone and Kenyan telecom Safaricom had modest expectations for the mobile-money platform they created in 2007. Many thought M-Pesa—which lets people who lack bank accounts use their smartphones to save and transfer money, receive pensions, and pay bills—was a worthwhile idea but didn't imagine it would transform the regional economy. Within months, though, membership rocketed. Today 17 million people in East Africa, India, Romania, and Albania—many of whom are on the financial grid for the first time—use M-Pesa. "It has been revolutionary," says World Bank economist Wolfgang Fengler. "It has changed lives, businesses, and the perception of Africa, and brought substantial flows into the financial system that would have otherwise been lying literally under mattresses." A staggering 42% of Kenya's GDP is transacted through M-Pesa. And for Vodafone, brand loyalty has followed. Fewer than 0.1% of its customers in Kenya have dropped the company since 2010, says Vodafone's Michael Joseph, a former Safaricom CEO who oversees M-Pesa.

> "It has been revolutionary. It has changed lives [and] businesses, and brought substantial flows into the financial system that would have otherwise been lying literally under mattresses."
> —WOLFGANG FENGLER, WORLD BANK

NO. 2

Google (Alphabet)

Knocking down more barriers to knowledge

U.S.

Is there a greater force against ignorance than Google? The search giant's knowledge-bearing tentacles extend to every cranny of the globe, empowering its billion-plus users with information of all varieties—and in 159 languages. Processing over 100 billion queries a month, Google has so profoundly changed our world that it's hard to remember life before it. But Google is not just a tool for curious minds; it's a springboard for academic collaboration: Google Scholar has leveled ivory towers and become a spiritual guide for open science. Catriona MacCallum, senior advocacy manager at open-access pioneer PLOS, says the "discoverability" it provides researchers is invaluable. Then there's Google Translate, decoding 1 billion linguistic mysteries per day, which is closing cultural gaps in communication in stunning real time. With 25 million books scanned already, Google Books is fast becoming our most comprehensive archive of the written word. Meanwhile, Google Earth, a satellite-based mapping tool, is helping scientists track climate change as never before. "It makes it very simple to get our data out there," says Jane Beitler of the National Snow and Ice Data Center, which posts time-lapse images of declining sea ice. "Whether you're a scientist who wants to know how this affects polar bears or a citizen who wants the straight-up information on climate change, Google Earth provides that. A picture, after all, is worth a thousand words."

TOYOTA JAPAN

Building powerful weapons in the fight to lower automobile emissions

CHANGE THE WORLD

NO. 3

IT HAD LITTLE TRUNK SPACE and looked like a Corolla with chubbier cheeks. But in 1997, with plenty of head-scratching from the media and experts, the Prius became the first large-scale stab at solving the auto industry's massive emissions problem. The world's inaugural mass-market hybrid, the Toyota arrived as a half-gas-, half-battery-powered carriage that could reach a startling 40 miles per gallon, and promptly made everyone believe. Hybrids now account for about 3% of new car sales in the U.S.; in Japan that number is around 30%, with Toyota accounting for 40% of the world's hybrid market. And in September, Toyota speeds into the unknown once again as it launches the Toyota Mirai, the world's first mass-produced fuel-cell vehicle. Powered by hydrogen and emitting nothing but drops of water, it could be even more eco-friendly than its electric-vehicle peers. Those who have tested the technology vouch for its potential; less obvious is whether Toyota can build the infrastructure required to support the Mirai. But if fortune favors the brave, Toyota is set to profit from where no vehicle has gone before.

↓ The Toyota Mirai, whose hydrogen fuel cell makes it a true zero-emission vehicle

NO. 4

Walmart

Pushing an army of suppliers to eliminate waste

U.S.

Earlier this year, Walmart CEO Doug McMillon kicked off his company's biannual sustainability milestone meeting by showing off a new, improved bottle of detergent: the Purex PowerShot. Developed by Walmart with the manufacturer, Henkel, the product uses less water and is 30% more efficient and 50% more effective than the old version, but costs the same, McMillon said. Partnering to create a better product is a process Walmart can replicate "hundreds of thousands of times over again," he said. Indeed, the world's largest retailer does sustainability on a massive scale. It has been 10 years since former CEO Lee Scott kicked off a new era of corporate responsibility at Walmart by establishing three goals: to be 100% supplied by renewable energy, to eliminate waste from its massive system, and to create a more sustainable supply chain. Walmart today gets 26% of its electricity from renewable sources and operates with 9% less energy intensity than in 2010. Nearly 1,300 of its suppliers now use its Sustainability Index—and by the end of 2015 the company will have eliminated 20 million metric tons of greenhouse-gas emissions from its supply chain. The company estimates its suppliers will increase the recycled content in their packaging by 1 billion pounds by 2020. Walmart set another example in 2015 when it raised the minimum wage for all workers, spurring rivals like Target and TJX to boost pay as well.

GOOGLE: NSIDC; TOYOTA: TOMOHIRO OHSUMI—GETTY IMAGES

NO. 5
ENEL
Working on a turbine at Enel's wind-power farm in Frosolone, Italy. Enel generates 38% of its power from renewable sources.

ALESSIA PIERDOMENICO—GETTY IMAGES

NO. 7

Jain Irrigation Systems

Smarter water delivery becomes a cure for rural poverty

India

Jain has built its business by improving the livelihoods of 5 million small farmers in India. Based in the country's western Maharashtra state, Jain began selling micro-irrigation systems in 1986, when it recognized that the technology, commonly used in industrial agriculture, could be adapted for local growers, whose tiny landholdings were traditionally watered by rain or blunt flooding techniques. As Jain's "More crop per drop" slogan promised, yields increased dramatically—50% to 300%, depending on the plant—as did farmers' incomes.

And Jain continues to boost both in other ways as well: It has introduced more-viable crop varieties and trained farmers on more productive growing techniques, such as high-density planting for mangoes. The company also branched into solar water pumps (electricity is often scarce on the farm), financing, and food processing—for the likes of Coca-Cola and Unilever—so that there is a ready market for these farmers' wares. The company, the world's second-largest seller of drip-irrigation systems, now does business in 116 countries.

NO. 5

Enel

Cleaning up—as it cleans up the power grid

Italy

We expect revolutions to be led by tiny upstarts, not established giants. But Enel, Italy's $101 billion-in-revenues utility—No. 69 on the Global 500—is charging the barricades when it comes to clean power. Last year it generated 38% of its total output from renewable sources, including wind, solar, and geothermal energy. CEO Francesco Starace says that figure will be 48% in four years, and he has committed to making Enel—whose fastest-growing subsidiary is Green Power, which had $3.9 billion in revenues last year—carbon-neutral by 2050.

NO. 6

GSK

An innovative malaria vaccine brings knowledge and hope

United Kingdom

When Mosquirix, a vaccine developed over three decades by GSK (GlaxoSmithKline), was approved by the European Medicines Agency in July, it was a big deal. The first vaccine of its kind, it is a long-awaited weapon in the war against malaria, which strikes 200 million people a year and kills 600,000—the majority children. Mosquirix, which in clinical trials reduced malaria cases by 40% in children, is no magic bullet, but it represents significant progress against a disease that has gotten scant attention from drugmakers. It's priced 5% above the cost of manufacture, and the profit will be reinvested in tropical disease R&D. But the greater business and scientific potential comes from the insights GSK collected in the effort, which are now being applied to other projects, including a shingles vaccine. "The proof of concept has been made: It works," says Greg Poland, director of the Mayo Clinic's Vaccine Research Group. "The next stage will be to, in time, improve it and apply the technology to other complex diseases." Potential agents, he says, could target hepatitis C and HIV.

NO. 8

Cisco Systems

Training a tech workforce that could lift up the Middle East

U.S.

It will come as no surprise that the political and economic challenges in the Palestinian territories make it tough for the local economy to grow. Enter Cisco, which has pioneered an outsourcing collaboration between its Israel office and Palestinians with tech skills. The effort, now followed by companies like Microsoft and Google, has helped the area's IT outsourcing sector grow 64% from 2010 to 2014. (Such tech work currently accounts for about 10% of the West Bank's GDP.) Cisco, which provides much of the networking infrastructure in the Middle East, has also staked $15 million in local incubators and youth-training programs. Its West Bank investment is a mere glimpse into the broad reach of Cisco's Networking Academy program, which has trained 5.5 million students around the world since 1997—nearly all in places that didn't have endemic high-tech sectors. The ROI for Cisco? A broader, cheaper pool of technical workers—and a foothold in dozens of new markets.

NO. 9

Novartis

Bringing essential medicines to the poor

Switzerland

In 2006, Novartis set out on an ambitious plan to bring dozens of essential medicines—basic remedies to fight diarrhea, parasites, nutritional deficiencies, and respiratory ailments—to rural India. From a philanthropic standpoint, the goal was laudable, but Novartis wanted it to be sustainable: It had to stand on its own as a business. The challenge? Health education was low, doctors were scarce, and distribution channels were nonexistent. Novartis brought in physicians—who have treated nearly a million patients since 2010—and raised awareness of the critical need for hygiene in preventing infection. Just 31 months after the launch of Arogya Parivar ("healthy family" in Hindi), the venture broke even. It's now being rolled out in Kenya, Indonesia, and Vietnam.

NO. 10

Facebook

Philanthropy? It's the app for that

U.S.

Business gurus talk rhapsodically about the power of connectivity; social philosophers extol the value of community. Facebook brought these things together in the geologic blink of an eye. With 1.5 billion active monthly users, the social network has morphed from mere friend finder to global front porch, preserving cultural ties lost in the modern diaspora and facilitating communion around the globe. Though such fellowship can ever-so-rarely lead to an unsavory end (like ISIS recruitment), Facebook has mostly served the good. Witness the 2014 Ice Bucket Challenge—in which untold millions on the network helped raise $115 million for the ALS Association.

CHANGE THE WORLD

NO. 11

MasterCard

Waging "war on cash," and helping millions

U.S.

MasterCard is at war—with cash, says Mark Elliot, South Africa country manager for the credit card giant. The billions of people around the world (85% of the population) who still pay for goods with cash are vulnerable to everything from predatory interest rates (think: payday loans) to outright theft. The cash economy also costs governments billions of dollars in uncaptured tax revenue. In all, says Harvard Business School professor Sunil Gupta, the inefficiencies of cash can cost countries as much as 1.5% of GDP. MasterCard is operating on a mind-boggling number of fronts to fight that—working on over 500 financial inclusion projects. In one of the oldest, MasterCard has partnered with South Africa's government to distribute social benefits on debit cards to more than 10 million recipients. The previous system was leaky and inefficient, forcing people to travel to centers where they'd queue up for cash. The switch to electronic payments reduced fraud and has saved the South African government more than $250 million in the past two years. MasterCard declines to say how much revenue is generated by the partnership, but says that both this and its inclusion efforts overall are profitable. "The margin size is small, but the scale and mass is what's bringing sustainability," says Elliot. And when he says scale, he means it: MasterCard estimates that since 2013 it has brought more than 150 million people to the formal financial table.

BY MICHAEL E. PORTER & MARK R. KRAMER

Profiting the Planet

A QUIET CORPORATE REVOLUTION is underway: Companies are beginning to compete to change the world for the better. The drive for profit, often criticized for coming at society's expense, is driving and enabling solutions to many of the world's most challenging problems.

For decades many companies ignored the social and environmental consequences of their activities. They saw their main responsibility as delivering returns to shareholders and viewed their obligations to society narrowly, as "giving back" through philanthropy. After repeated corporate scandals, public pressure forced companies to accept a heightened level of "corporate social responsibility" as a cost of doing business and a way to improve their reputations. A growing number of investors also began to take note of companies' environmental, social, and governance indicators, raising the bar on corporate conduct. But still, the main focus was on avoiding harm.

What's emerging today is something more fundamental—something we call creating shared value. Large companies are addressing big social problems as a core part of their strategy. They are disproving the flawed and simplistic notion that business and society are implacable opponents locked in a zero-sum game. Instead, they are demonstrating the radical idea that companies that tackle social problems through a profitable business model offer new hope for innovative and scalable solutions.

Discovery Insurance, for example, has devised programs that extend the life expectancy of its customers, resulting in lower prices and higher profits. Novartis has found new revenues outside normal distribution channels by bringing medicines and health education to tens of millions of rural villagers in India. Walmart is saving billions in costs by reducing its environmental footprint

Mark Clifton (left) of Jain Irrigation demonstrates a drip-watering system at a trade show in California, where drought has made conservation a critical issue.

AL SEIB—GETTY IMAGES

and encouraging its suppliers to do the same. And Jain Irrigation has taught 5 million smallholder farmers in India how to grow more and save water through drip irrigation.

Companies like these see societal problems as opportunities for business innovation and competitive advantage. They reveal important unmet needs that can be addressed through new or redesigned products. Societal deficits create internal costs that can be reduced by reinventing value chains and strengthening the business environment in the communities in which they operate. Companies are finding new opportunities to partner with nonprofits and governments to achieve these shared-value objectives. The ability to profit and sustain growth drives innovations that improve health outcomes, make progress on climate change, provide better access to education, and create new economic opportunities for those in poverty, all at massive scale.

Fortune's first Change the World list is an effort to acknowledge this shift. It is a ranking of companies that have made a sizable impact on major global social or environmental problems as part of their competitive strategy. This list is not meant to be a ranking of the overall "goodness" of companies or of their "social responsibility." Big corporations are complex operations that affect the world in myriad ways. The goal here is simply to shine a spotlight on instances where companies are doing good as part of their profit-making strategy, and to shed new light on the power of capitalism to improve the human condition.

In working on this project, we and the editors of *Fortune* reached out to dozens of business, academic, and nonprofit experts around the world, asking for their recommendations. More than 200 submissions were vetted by a joint team from the Shared Value Initiative and our nonprofit social-impact advisory firm, FSG. We considered four criteria: the degree of business innovation involved, the measurable impact at scale on an important social challenge, the contribution of the shared-value activities to the company's profitability and competitive advantage, and the significance of the shared value effort to the overall business. A team of journalists from *Fortune* then further vetted each of the nominees and reported on their impact. The final list of 51 was selected and ranked by the editors of *Fortune* based on the magazine's own reporting and by the analysis provided.

Shared value is only beginning to be measured comprehensively. Some companies remain reluctant to disclose the business impact of their social activities because they seek to appear altruistic and fear that the mere mention of profit will undermine that. Others on the list compete in controversial industries or have engaged in harmful practices in some areas even as they create social benefits in others. Shared value is not a one-dimensional filter that labels companies as either good or bad.

This first Change the World list is only a start. Many more companies that are transforming the planet will be recognized in future years, and we hope that still more will be inspired. Our goal here is to demonstrate the power of capitalism to solve social problems. Every company, large or small, should strive to be on this list. Business can—and must—compete to change the world.

Michael E. Porter, a professor at Harvard Business School, and Mark R. Kramer co-founded FSG, a nonprofit social-impact consulting firm. The Shared Value Initiative, launched by FSG, is a global platform for advancing the practice of shared value among companies and their partners.

NO. 12

Grameen Bank

Its tiny loans became a giant force for good

Bangladesh

Economist Muhammad Yunus had a theory: He believed that small, collateral-free loans could enable Bangladesh's unbanked poor to start businesses and lift themselves out of poverty. Grameen Bank, chartered in 1983, proved him right, demonstrating that "microcredit" could be self-sustaining and even profitable. Since then, Grameen has loaned $17.4 billion to 8.7 million borrowers, most of them impoverished women; it reports a 98.3% repayment rate and has had only three money-losing years since 1990. Just as important is the movement for which Grameen paved the way. Globally, microfinance accounts for at least $60 billion in loans annually and has reached 135 million people, according to the World Bank—one reason Yunus's accolades include the 2006 Nobel Peace Prize.

NO. 13

Alibaba

A tool for rural China to buy, sell, and thrive

China

Alibaba's original business was connecting wholesalers in China—making everything from blue jeans to mopeds in bulk—with large buyers around the world. It worked so well that Alibaba began running consumer-based marketplaces, the eBay-like Taobao and Amazon-like Tmall, which now drive the majority of the company's sales. The marketplaces are a boon, especially for China's rural sellers, of which more than 2 million are active. They include farmers selling fresh produce on Taobao and small manufacturers offering trinkets. Before, these sellers were closed off from most of China and the world. Rural buyers, too, have been transformed by the new products available to them. Alibaba has brought tens of millions of poor people online—and into a thriving economy.

SABMILLER UNITED KINGDOM

Supporting the small businesses that helped build a giant brand

NO. 19

READERS CAN ARGUE long and hard about the value of beer, but SABMiller has focused on improving the livelihoods of the people its products depend on. Supporting small business—from shareholder farmers who supply ingredients to mom-and-pop shop owners who sell their brews—is embedded in SABMiller's strategy. In Uganda there's Eagle, the brewer's locally developed sorghum beer that now provides a market for 20,000 community farmers (and an affordable—and now market-leading—product for the masses). In Latin America, where 780,000 *tiendas* and other small retailers account for roughly 40% of SABMiller's sales, business training and assistance with financing have helped lift the company's average sales in the region by 12.8% since 2013. That's a nice bump for SABMiller—but a meaningful income boost for shop owners who once barely got by.

NO. 14

Danone

Nutrition, tailored to those who need it most

France

Big Food may be baby-stepping toward healthier fare, but Danone (which exited the junk-food biz in 2007) has committed completely. *Le roi du lait* excels at tailoring products to vulnerable populations, says Inge Kauer, executive director of the Access to Nutrition Index. After studying the diets of Brazil's youth, Danone reformulated a bestselling cheese (reducing sugar and adding vitamins) without harming sales. In Bangladesh, children eat 600,000 servings a week of its Shokti-Doi, a nutrient-rich yogurt (made in collaboration with No. 12, Grameen Bank).

NO. 15

BYD

Their better bus could solve a smog crisis

China

Half the world's air pollutants derive from transportation sources, and diesel buses are especially harmful. Chinese automaker BYD is tackling that problem with its battery-powered bus, which can go a full day without charging—a first. And it costs less to maintain over a lifetime than diesel equivalents. That's good for China's smog-choked cities—and the U.S., where half the population lives in areas that don't meet federal air standards. BYD expects to sell 6,000 of the models in China this year—and is expanding in the U.S. with a new California factory.

NO. 16

Cemex

DIY homes for a price even the poor can afford

Mexico

Until the mid-1990s, Mexican cement company Cemex mostly sold building materials to big contractors. When an economic crisis decimated sales, it overhauled that business model—finding a new market in Mexico's urban working class. In exchange for fixed, regular payments, Cemex began sending building materials and technical support to do-it-yourselfers, enabling many to own their own homes for the first time. Today nearly a half-million families across Latin America have built Cemex-supplied homes at one-third the time and cost.

NO. 17

Discovery Insurance

Making healthy habits pay off for patients

South Africa

South Africa's Discovery has a hit with Vitality, a behavior-tracking program that rewards clients' healthy habits, even paying their gym memberships. Independent studies show that Vitality members are more likely to take up and stick with physical activity; engaged members also go to the hospital 7.5% less often, and for markedly shorter periods too. This is also good business: Discovery's annual operating profits have reached $500 million, and new Vitality insurance partners include John Hancock, Generali in Europe, and Ping An in China.

NO. 19
SABMILLER
A *tendera,* or shopkeeper, arranges bottles in her shop in Colombia. SABMiller Latin America has provided training and facilitated financing for thousands of store owners.

NO. 18
NOVO NORDISK
World Diabetes Day, Beijing

SABMILLER: COURTESY OF SABMILLER; NOVO NORDISK: COURTESY OF NOVO NORDISK

NO. 18

Novo Nordisk

As diabetes spreads, a mission expands

Denmark

In 1994, few of China's legions of diabetics—the nation has 96.3 million today compared with 26 million in the U.S.—received regular insulin treatments. That's when Danish drugmaker Novo Nordisk committed to tackling diabetes in China—an effort that involved training tens of thousands of physicians, educating patients, and investing in local manufacturing and R&D. The results? A 2011 research paper estimated that the efforts had saved 140,000 life-years from diabetes-related complications. Novo, meanwhile, has a 63% market share in China.

NO. 20

IBM

A genius supercomputer goes to work in medicine

U.S.

IBM's Watson has graduated from competing on *Jeopardy!* to treating cancers. Memorial Sloan Kettering Cancer Center is using the AI system to analyze medical articles, patient records, and clinical-trial results—helping physicians make treatment decisions. In a recent study with Baylor College of Medicine, Watson sifted through 23 million scientific abstracts to identify, in weeks, six cancer-related proteins worth targeting. (Typically, researchers have one such find a year.) On deck: a $100 million project to develop health applications in Africa.

NO. 21

Roshan

Courage under fire: bringing phone service to Afghanistan

Afghanistan

During the 2009 elections in Afghanistan, Taliban insurgents trained their weapons on a new target: cellphone towers belonging to Roshan, the country's largest telecommunications provider. Eighteen towers worth $14 million were bombed—and still Roshan refused to pay the extortion money that would have protected them from such acts. Perhaps no other company on this list operates under such stress, and yet Roshan has become a foundational cornerstone for a new, developing Afghanistan. Founded by the Aga Khan Development Network in 2003, Roshan has given 6 million Afghans cellular service; previously many had to cross the Pakistani border for phone access. The company has plowed more than $600 million back into the country's infrastructure, with telemedicine projects, schools, and soup kitchens a part of Roshan's network of compassion.

NO. 22

Vanguard

Protecting the increasingly endangered American retirement

U.S.

For America's middle class, many of retirement's financial building blocks have crumbled. Social Security and home equity look unreliable; pensions have nearly vanished. In their stead, 52 million savers rely on "self-directed" pension plans like 401(k)s, where expenses can siphon away tens of thousands of dollars over a lifetime. No institution has done more to combat those costs than Vanguard, the champion of index investing. By matching rather than trying to beat the market, index funds keep expenses low (Vanguard's average 0.18% annually). That in turn pressures competitors to lower their costs or justify high expenses with stellar returns (a bar that few clear). U.S. investors now hold roughly $4 trillion in index and exchange-traded funds. Not coincidentally, average stock-fund expenses have declined 29% since 2004.

CHANGE THE WORLD

NO. 23

Starbucks
Offering security for growers of a volatile crop
U.S.

Starbucks' enormous reach—21,000 stores in 65 countries—hasn't stopped the coffee giant from being intimately connected to its supply chain. Of the hundreds of millions of pounds of coffee Starbucks will buy this year, 99% will be verified as ethically sourced. The company has invested $20 million in coffee farms, a commitment that has touched 40,000 growers of the fickle crop. By 2020 it will invest $30 million more. The company is also funding research into new varieties of plants that are resistant to coffee rust—the industry's biggest nemesis.

NO. 24

Patagonia
A shrinking "footprint" leads to growing sales
U.S.

In 1996, Patagonia staked its reputation as a green retailer by removing all conventional cotton from its apparel to end its reliance on pesticides. Since then the company made public the environmental footprint of its garments and produced items made from recycled materials. Patagonia's "Don't buy this jacket" campaign, launched in 2011, urged customers to purchase less stuff and reuse what they already owned, enshrining the company as a sustainability stalwart. Despite the slogan, over the next two years annual sales grew almost 40%.

NO. 25

Cargill
Fighting malnutrition with a household staple
U.S.

In India, a country where 194 million people—and 40% of children—are malnourished, cooking oil matters. The staple product is found in 99% of Indian homes, making it one of the most surefire weapons to fight the country's scourge of malnutrition and fend off the host of issues—from blindness to vulnerability to infection—that come with it. That's why it was meaningful when Cargill, which sells more than a half-million ton of edible oils in India each year, began fortifying its products with vitamins A and D in 2008. Siraj Chaudhry, CEO of Cargill Foods India, saw nutrient enrichment—a $1 million annual investment—as a competitive advantage. Consumers and, more significantly, competitors were swayed—most cooking oil in India is now fortified. "It has been a catalyst for the whole industry," says Global Alliance for Improved Nutrition's Greg Garrett.

NO. 26

BD
Protecting the health workers who protect us
U.S.

For decades, BD (Becton Dickinson), the world's largest medical needle manufacturer, has made work safer for the globe's health care workers. Its quest began in the '80s—at the height of the AIDS epidemic—when industry data revealed how often those workers were injured and infected in needlestick accidents. BD quickly developed safety-engineered syringes and "needleless" IV access systems, funded a free-of-charge injury surveillance network (now used around the world), and created a training program with a large nursing organization. Thanks to the concerted lobbying efforts of BD and others, there is now federal legislation (passed in 2000) mandating the use of safe devices in the U.S. Sharps injuries have dropped substantially, and BD's safety-engineered products now generate more than $2 billion in annual sales.

NO. 27

M-Kopa
Electricity on demand in a land where it's scarce
Kenya

In Kenya, where around 77% of the population has no access to electricity, M-Kopa's pay-as-you-go solar-power machines require no installation and not even a bank account. Since M-Kopa launched in 2013, about 200,000 households in East Africa have leased its devices, paying minimal amounts daily for power (often via smartphone through M-Pesa) and junking other, more toxic power sources like kerosene burners. The model is "eminently scalable," co-founder Jesse Moore said recently. "We're really just getting started."

President Obama, with M-Kopa's June Muli, sees a machine in action.

SAUL LOEB—GETTY IMAGES

NO. 28

Unilever
Training the world to farm for the long haul
United Kingdom/Netherlands

As the globe's third-largest consumer-goods company, Unilever has a reach few corporations can match. More than half of the agricultural materials Unilever uses now come from sustainable sources and it has helped train 800,000 farmers to grow crops responsibly. In 2009 the company stopped issuing earnings guidance to keep short-term profits from driving strategy. While some shareholders have fretted about the bottom line, Unilever says its most sustainable products (including Dove and Lifebuoy soaps and Ben & Jerry's ice cream) are now its biggest growth drivers.

The End of 'Short-Termism'

For generations, shareholders have warned corporate managers not to let social responsibility eat into their profits. But a growing cohort of investors is sending a new message: Do good, or we'll walk.

BY JUDITH RODIN

MIGHT WE BE SEEING the sun setting on short-termism—the practice among analysts and investors of measuring success only by quarterly earnings? The numbers suggest the answer is yes. Almost half of all high-net-worth investors say they are interested in aligning more of their investments with their values. The assets managed under socially responsible principles—that is, guided by environmental, social, and corporate-governance criteria—doubled to more than $6 trillion between 2012 and 2014. And among millennials, a demographic group that will inherit more than $30 trillion over the next few decades, 92% believe that a business's purpose extends beyond profit.

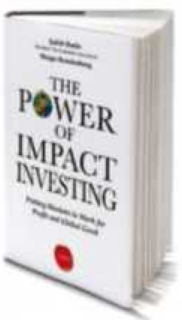
Given these trends, the arrival of *Fortune*'s first Change the World list—a roster of companies whose management conforms to similar principles—was only a matter of time.

The groundwork for this evolution in investor behavior has included the accelerating growth of impact investing—that which is intended to generate both financial return and social or environmental impact. Based on surveys by the J.P. Morgan/Global Impact Investing Network and others, more than $60 billion is under impact-investment management today. Historically such investors have accepted lower financial returns to achieve measurable change, and that fact has kept many investors and asset managers away from the practice. But that may be changing. We're seeing the emergence of a broader cohort of investors who will accept more risk to bring their investments in line with their beliefs (and their clients'). At the behest of such investors, BlackRock, the world's largest asset-management firm, launched an impact-investing portfolio earlier this year. And the Norwegian Global Pension Fund, the world's largest sovereign wealth fund, recently made the values-driven decision to no longer invest in companies that depend on coal for more than 30% of their energy needs.

As the behavior of investors changes, so too does behavior among companies competing for those investments. Businesses may find that they must "do good or lose out" to more-conscientious rivals. Indeed, companies that continue with business as usual are missing the competitive advantage that companies on this list have embraced.

Of course, corporate leadership is not just about attracting investors; it's also about doing what's right for business. Current trends go beyond previous models of corporate social responsibility precisely because more companies see that a focus on social and environmental impact affects the bottom line. As a result, companies are reimagining how they source, operate, and innovate to advance a healthier planet and create more inclusive economies—those with more opportunities for more people—as part of a virtuous business cycle.

For executives looking to take this approach, there's good news: You don't have to go it alone. There are models to learn from and emulate (just look at this list), partners waiting to lend expertise, and more sophisticated systems for measuring and proving impact beyond financials. Socially responsible management is no longer the Wild West but the new normal. And in the near future, when you do what's right for your long-term success by doing more good for the world, investors won't just give you permission—they'll reward you.



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Judith Rodin is the president of the Rockefeller Foundation and a co-author of *The Power of Impact Investing: Putting Markets to Work for Profit and Global Good.*

CHANGE THE WORLD

NO. 29

Ayala
Millions can thank it for potable water
Philippines

Metro Manila's densely packed East Zone was a farrago of problems in the mid-'90s. Only a quarter of its 6 million homes had reliable access to round-the-clock potable tap water, and just 3% had access to a sewer system; disease and the illegal trading of bottled water were rampant. Such was the gravity of the issue that the Water Crisis Act was drafted in 1995, transferring the responsibility of access to water from the government to Ayala's Manila Water Co. Many now see the latter as the savior of a city: In the 18 years since its entry in 1997, the utility has provided a 24-hour supply to 99% of residents and replaced almost all the local pipes. Its Tubig Para Sa Barangay ("Water for the Poor") program makes sure the area's 1.8 million low-income households can afford clean and potable water.

NO. 30

Whole Foods Market
Raising the bar for every American grocer
U.S.

Whole Foods (see story on page 76) helped create the market for natural, healthy food—and in doing so "set a standard for grocery stores," says New York University food studies, nutrition, and public health professor Marion Nestle. The Austin-based grocer prompted giants from Walmart to Kroger to up their organic game. Whole Foods continues to push for change through initiatives like its animal-welfare standards, its refusal to sell overfished seafood, and its requirement that all products it sells containing genetically modified ingredients be labeled as such by 2018.

NO. 31

CVS Health
Another coffin nail for the cigarette industry
U.S.

When the cities of San Francisco and Boston banned the sale of tobacco in retail pharmacies, the number of cigarette buyers fell by 13%. Indeed, making cigarettes even slightly less accessible can push down childhood smoking rates. Which is why CVS Health's decision, in early 2014, to stop selling tobacco products in its 7,600 stores was so momentous, and praised by public health officials. Investors have joined the chorus of hosannas, pushing CVS stock up 66% since the bold move—three times the return of the S&P 500 over the same period.

NO. 32

Equity Bank
Finance for 10 million of Africa's poorest
Kenya

Only 34% of sub-Saharan Africans have a bank account, according to the World Bank—but that's up from 24% in 2011, thanks in part to Equity Bank. The Kenyan lender has pioneered the expansion of financial services across the continent, including mobile banking (see also our No. 1 pick). Once a struggling mortgage financier, Equity pivoted to microfinance, bringing branches to the countryside and offering small loans to Africa's unbanked. It's now one of the continent's largest financial institutions in terms of customers—with more than 10 million.

INTERCORP PERU

Building a network of schools to sustain an emerging nation

NO. 33

INTERCORP CHAIRMAN Carlos Rodriguez-Pastor's conglomerate, which had $16 billion in assets as of March, operates with a single ambitious goal: to create a strong economic backbone to sustain Peru's burgeoning middle class. The organization has pursued this aim on several fronts: banking, retail, and real estate development, to name a few. In 2010, Rodriguez-Pastor tackled Peru's ailing education system, investing in a small group of private schools founded by educational leader Jorge Yzusqui Chessman. Rodriguez-Pastor hired Chessman and design firm IDEO and gave them an ambitious mandate: to build a network of a hundred schools throughout Peru and beyond. The result? Innova Schools, a low-cost (tuition is $130 per month) for-profit education system of 29 schools and counting, with 19,000 students. Innova, which opens an average of six schools a year, uses a so-called blended learning model that allows students to learn on their own and via teacher-assisted group work. The results so far have been impressive: In 2014, 71% of Innova second-graders tested proficient in math (compared with 26% nationally), and 85% met thresholds in literacy (compared with 44%).

↓ At one of Intercorp's Innova schools, a teacher helps a student during "solo learning" time.

COURTESY OF INTERCORP

NO. 35
IKEA

CHALLENGE

Coke vs. Pepsi

Neither of the longtime beverage rivals made our list. But both have serious ambitions when it comes to conserving water. Which one does it better?

THE GOALS

Coca-Cola uses some 40 billion gallons of water each year in its Coke, Sprite, and other sugary drinks, plus its Dasani bottled water. In 2007 the $46-billion-in-sales company set a goal to return to nature 100% of the H_2O it consumes by 2020.

PepsiCo today gets 53% of its $66.7 billion in sales from snack food—so much of its water demand comes from agriculture, not just Mountain Dew or Aquafina. It has formed partnerships to support water-efficient farming practices globally.

THE REALITY

Coke has taken on more than 200 water protection and replenishment projects around the world. In 2014 the beverage giant "balanced" the equivalent of 94% of the water it used in its drinks, and says it is on track to reach 100% by the end of 2015.

Pepsi met, ahead of schedule, a goal to improve water-use efficiency in its operations by 20% per unit of production compared with 2006 levels. In 2013 alone that reduced water flow at PepsiCo by 3.7 billion gallons and saved the company $15 million.

THE WINNER

Coca-Cola: The sodamaker is under fire after reports that it has funded research to blur the link between its product and obesity. But in water replenishment, at least, Coke is the real thing.

NO. 34

Philips

To expand health care, start by turning on lights

Netherlands

Philips has spent years extolling LED lighting, which is long lasting and consumes far less energy than other lighting. But over the past year the company has been building solar-powered LED complexes throughout Africa—transforming 87 underused health clinics and giving kids the ability to read and play after dark. The initial outlay for the project is donated. But there's an upside for Philips in the lighting project, which has given it a foothold in numerous new markets and boosted orders for its tablet-size ultrasound machine, Visiq—a lifesaving device for doctors in remote villages.

NO. 35

Ikea

Lowering prices and cutting waste

Sweden

Ikea dropped its prices by an average of 1% last year. The more the Swedish furniture giant sells, the better prices it can secure from suppliers and the more savings it can pass along to customers. But importantly, Ikea links that effort with the impact its products have on the planet. Designers aim to minimize environmentally unfriendly materials like foam in sofas and flat-pack furniture to reduce the energy needed to ship it. Sales from green products topped $1 billion in its latest fiscal year, and on Sept. 1, Ikea will become the first major retailer to sell only LED bulbs and lighting.

NO. 36

SpaceX

Stepping up to sustain the exploration era

U.S.

Let us stipulate that discovery is a public good—that exploring new worlds is akin to changing the one we live in. After NASA put an end to its space-shuttle program in 2011, many thought it marked the end of the exploration of our galaxy. SpaceX seeks to make that fear unwarranted. Led by Tesla founder Elon Musk—whose batteries and electric vehicles are also world changers—SpaceX has become the first private company to send a spacecraft into orbit and has earned contracts worth $4.2 billion for hauling supplies to the International Space Station. Its cost-saving vertical integration and reusable rockets could facilitate sending astronauts to space affordably and frequently. The final frontier? To colonize Mars.

NO. 37

Nike

A former labor laggard now sets strict standards

U.S.

In the 1990s an exposé about labor conditions in Nike's overseas factories prompted crippling protests against the global brand. Today the company has regained its customers several times over—in the most recent fiscal year revenues rose 10%, to $30.6 billion—but the company hasn't let up on its response to the scandal. In an apparel industry where production standards are often fuzzy, Nike zealously audits factories' ability to meet the company's labor, health, safety, and environmental targets. In its 2013 fiscal year, 94% of its 785 factories were assessed for compliance; investigators found violations at 16%, down from 29% the previous year. There's room for improvement, but great strides have been made.

CANS: ISTOCK; IKEA: COURTESY OF IKEA

CHANGE THE WORLD

NO. 38

Maersk

Setting a new course in a fuel-guzzling industry

Denmark

Consider this: Since 2007, Maersk has cut its emissions by 39% even as cargo grew by 27%. That's had a substantial impact on the environment—the Danish shipping giant is king of a global industry that releases about the same amount of carbon as the entire nation of Indonesia each year—but it has also been a financial boon. Maersk saves more than $100 million in fuel each year by *slowing* its ship speeds, closely monitoring their paths, and sending out to sea the Maersk Triple E, the most energy-efficient container ships in the industry.

NO. 39

Intel

Freeing tecŽology from the stain of conflict

U.S.

For the past two decades our electronics industry has contributed to one of the most violent, protracted conflicts on the planet. Microprocessors are made with tantalum, tungsten, tin, and gold—all minerals largely sourced from the Democratic Republic of Congo, where mining activities often fund armed groups. Since 2009, Intel, the $56 billion chip-industry giant, has led the charge to reverse that. Determined to rid its products of such grim associations, the company—with an auditor's touch—dug deep into its supply chain. The effort worked: In 2014 Intel announced that its microprocessors were conflict-mineral free, an achievement many had thought impossible. Since then, much of the tech industry, from HP to Apple to Dell, has been working to achieve the same goal.

NO. 40

Arup

Building the icons of green architecture

United Kingdom

On July 9, 1970, renowned engineer Ove Arup stood before his partners in Winchester, England, and made what became known as the Key Speech: a path for the future of his practice. "We shape a better world" would be his mantra and the cornerstone of Arup, a London-based collective of 11,000 designers, planners, and engineering consultants who bend steel and concrete to their risk-taking, green-minded will. The Sydney Opera House, Beijing National Stadium, and Heathrow Terminal 5 are icons shaped by Arup's ethos of "total architecture," a democratic approach that unites employees from different disciplines and imbues them with a social purpose. [Arup himself died in 1988.] The firm has worked on 20 zero-net energy-efficiency projects and is responsible for the California Academy of Sciences, the largest LEED-platinum-certified public building in the world. This year the company opened the BIQ House in Hamburg, the world's first building powered by algae. If there is a structure that marries sustainability with a sense of the impossible, chances are it is the work of Arup's hands.

TWITTER U.S.

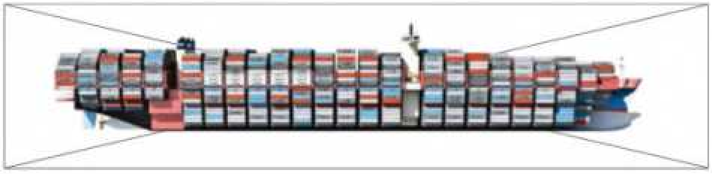
Helping social activists reach one another and the wider world

NO. 41

THEY WERE JUST three telegraphic, panicked sentences amid the mayhem in Cairo's Tahrir Square on Feb. 2, 2011. "Very tense near museum now. We're still blocking them but fatigue & injuries slowly catching up with us," Mosa'ab Elshamy tweeted at 10:31 p.m. "More people needed." Hundreds following Twitter ran to help. Watching the lethal battle unfold from my hotel above, I tweeted at 11:22 p.m., "Listening to gunfire and Molotov cocktails exploding outside my window. A violent chaotic day bodes ill." Twitter, now a $23 billion company that hosts 500 million tweets a day, did not create the Arab Spring; exasperated youth did that. But the torrent of raw, enraged tweets rendered government media toothless, instead directing mass action by the minute, and helping to topple a 30-year dictatorship in just 18 days. After Twitter, no revolution will be the same again. Its epic drama is written on the fly, in tweets like this from Feb. 2 at 3:01 p.m.: "Plainclothes thugs (police) are on horses now, trying to storm Tahrir Square, with whips!" In the stunned aftermath, we were left with tweets like this from one Cairo woman: "My dad hugged me after the news and said 'Ur generation did what ours could only dream of. i'm sorry we didn't try hard enough.'" Sadly, her dad's generation did not have Twitter. —*Vivienne Walt*

ARUP: BODO MARKS—PICTURE-ALLIANCE/DPA/AP IMAGES; TWITTER: VIVIENNE WALT

Activists on the barricades at Cairo's Tahrir Square, Feb. 4, 2011



NO. 44
ECOLAB

NO. 38
MAERSK
Left, workers load cargo onto a Maersk vessel; top, a drawing of the hyper-efficient, fuel-saving Triple-E.

NO. 43

Fitbit

Boosting heart rates for 20 million people and counting

U.S.

Many of the digital devices in our lives encourage couch-potatoism. But Fitbit's wearable activity trackers challenge our modern-day inertia, lacing into our La-Z-Boy ways with every counted step. Studies show the wristbands boost the physical activity of just about anyone they're slapped on—including recess-going children, post-menopausal women, and sedentary adults. That makes them a promising intervention to fight obesity and increase basic fitness—and explains why companies like Diageo and BP give them to employees, and some insurers (see No. 17 on our list) are using them in health plans. Fitbit data have also proved to be a strong predictor of which patients, after their hospital discharge, are likely to have complications and be readmitted.

NO. 42

Ford Motor

Redesigning a bestseller to make it eco-friendly

U.S.

Bill Ford, Ford Motor's executive chairman, declared a "clean revolution" back in 1999. His great-grandfather's company was the first American carmaker to bring a hybrid to market—a version of the Ford Escape, in 2004. Now Ford is experimenting with an industry first: changing the body of its monumentally popular F-150 pickup (the bestselling vehicle in the U.S. for more than three decades and counting) to aluminum from steel. The change shaves 700 pounds off the weight of each truck and gives it the lowest environmental impact of any pickup, after considering energy spent in manufacturing and the lifetime use of the vehicle, reports the Automotive Science Group. When compared with the 2014 model, says ASG, the new F-150s—which can be outfitted with a remarkably efficient engine—should save more than 30 billion pounds of greenhouse-gas emissions over their lifetimes, based on sales to date. And drivers seem to be falling in love with the truck too. In July alone, 66,300 F-series trucks flew off the lot. Industry experts say that other truckmakers, including GM, are weighing a similar move to aluminum alloys. But for now Ford is out front and alone. Marvels one official at the U.S. EPA: The F-150 is already close to meeting the nation's newly strict mileage standards…for 2025.

NO. 44

Ecolab

Tightening the corporate spigot to prepare for a scarce-water world

U.S.

When big companies like Kraft Heinz, Unilever, and ArcelorMittal need to reduce their water usage, they call on Ecolab, the Minnesota-based firm that has become a global environmental trouble shooter. Once a carpet-cleaning business, Ecolab has evolved to focus on water management, hygiene, and food safety, with over 6,800 patents designed to help corporations reach sustainability-minded goals. Ecolab says its proprietary technology helped customers save around 2.5 billion gallons of H_2O worldwide last year. Its services as water guardian are likely to be ever more in demand, since researchers believe there will be a 40% global shortfall between the demand and available supply of water by 2030.

NO. 45

Opower

A little peer pressure to reduce wasted energy

U.S.

Smile, you're saving the planet. Energy management company Opower has fused insights about behavioral change—that people are more influenced by peer pressure than by any other incentive—with a unique way of making you use less electricity. Smiley faces are stamped on specially delivered energy reports, and data from neighbors are pooled together for comparison, adding an element of pride (or shame) to your power usage. Evidently it works: A family of four saves about 2.5% more energy on average once its utility teams with Opower. More than 90 utilities are working with the Virginia-based company to reach around 62 million customers. Opower, which went public only last year, had $128 million in revenues in 2014.

NO. 46

Waste Management

Rethinking recycling to make it actually work

U.S.

In 2001, Waste Management revolutionized its industry as the first major player to introduce single-stream recycling, which allows customers to skip the sorting and throw all recyclables in one bin. But Americans have become increasingly lazy about throwing all sorts of things in their blue recycling bins, running up the cost of processing. The company is now investing in educational campaigns to end the complacency and get trash out of the recycling stream, while renegotiating contracts so that it can still make a profit in the new era. "Waste Management is going to recycle forever," says CEO David Steiner.

KICKSTARTER U.S.

Turning everyday people into patrons of the arts

NO. 48

IN 2014, the National Endowment for the Arts had a budget of $146 million. That same year the crowdfunding platform Kickstarter raised $264 million for art-related projects, like Ai Weiwei's installation in Alcatraz, the revival of *Reading Rainbow*, and singer-songwriter Steve Grand's first recorded album. "The way that art has been funded has shifted from the church to the aristocracy to the state ... toward audience support," says Brian Newman, a consultant for arts-related business development and the former CEO of the Tribeca Film Institute. Through Kickstarter, more than 9 million people have directly supported a total of almost 100,000 projects—an innovation that Newman calls the "democratization of the field."

NO. 47

Costco

Where retail workers get better-than-retail wages

U.S.

There may be no more discussed problem these days than income inequality. But one big-box retailer has long shown that the wage gap doesn't have to be so wide. In an industry where shelf stockers and cashiers are typically meagerly paid, Costco compensates its workers well above national norms—and still records eye-popping profits. The average U.S. Costco worker earns $21.50 per hour, and 90% of its 134,000 U.S. employees qualify for benefits. The average cashier, by contrast, earns $9.12 per hour nationally, and warehouse workers, $11.04. Costco had $2.06 billion in profit in 2014, up from $1.3 billion in 2010.

ONES TO WATCH

On the Cusp

Three companies attacking familiar problems in new ways

ECOVATIVE

To replace Styrofoam and similar landfill-clogging blights, this New York company relies on mushrooms, using mycelium roots from fungi to make biodegradable packaging for Dell and Steelcase.

NARAYANA HEALTH

The Indian hospital franchise has a policy of turning no one away for lack of funds. It offers cardiac surgeries at 2% of the cost in the U.S., along with similarly low-cost cancer care and marrow transplants.

NATURA

This Brazilian cosmetics company sources materials sustainably from the Amazon region. With $2.1 billion in sales in 2014, it's the biggest company to earn "B Corp." certification for its conscious capitalism from nonprofit B Labs.

NO. 49

Marks & Spencer

Carbon-neutral, zero-waste, and profitable

United Kingdom

When Marks & Spencer announced its ambitious 100-point sustainability plan in 2007, it was widely lauded as the most progressive shift in business practices by a mainstream British retailer. Five years later, Marks & Spencer had achieved a majority of the goals listed in its strategy, called Plan A. In 2012, the company announced that in the U.K. and Ireland, it had become carbon-neutral (thanks in part to improved refrigeration efficiency) and that it was sending zero waste to landfills. (One tactic? Reducing the price of perishables as the shopping day wore on.) The progress hasn't let up: Marks & Spencer has continued to set new sustainability goals and meet them. The thriftiness, in turn, has generated nearly $1 billion for the retailer since Plan A's creation.

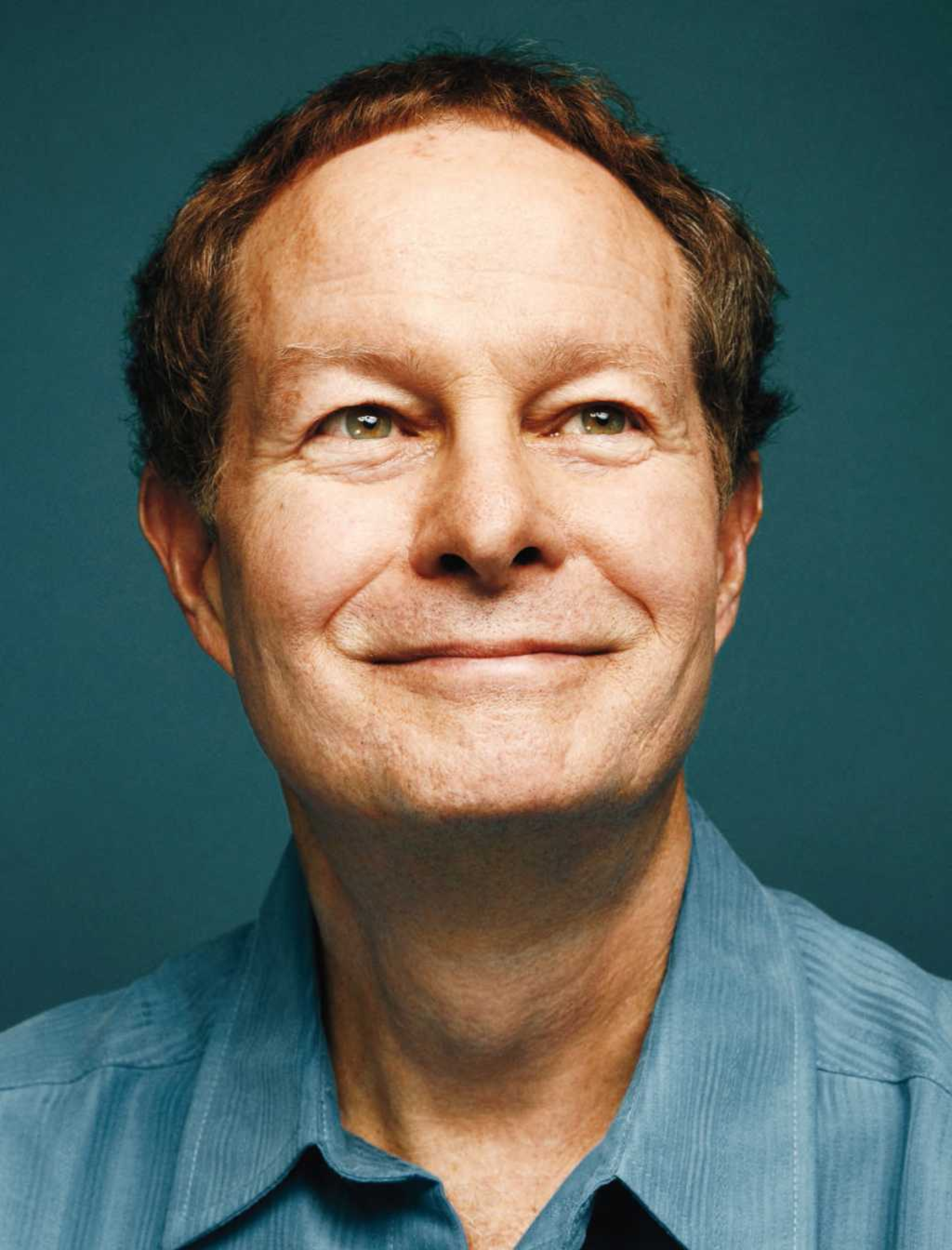
NO. 50

Essilor

Seeing a public health crisis through a new lens

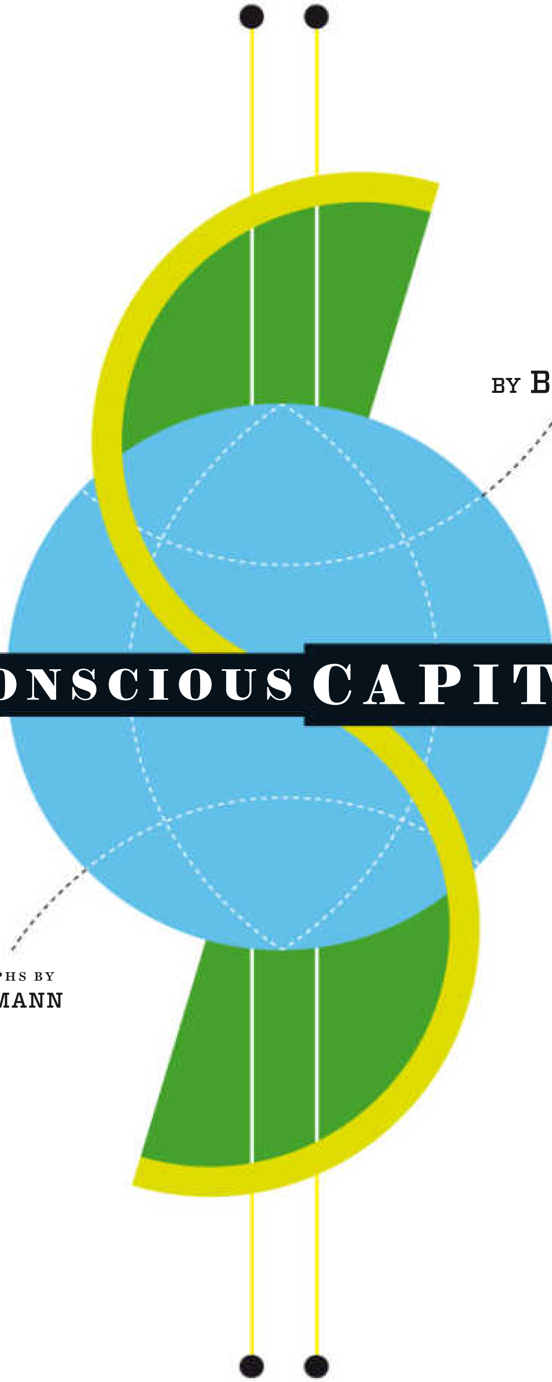
France

An estimated 2.5 billion people around the world, the majority in developing countries, have poor vision but no corrective tools. For Essilor, a French eyeglasses company, that's an opportunity. Through its 2.5 New Vision Generation division, launched in 2013, Essilor has expanded eye-care access to underserved populations in 22 countries, including India and China. By offering no-frills glasses that sell for as little as $6 and finding ways to bring opticians directly to rural populations, Essilor aims to make a small margin on millions of sales. Chief corporate mission officer Jayanth Bhuvaraghan describes 2.5NVG as a startup that is in its investing phase. By 2018 he expects the division to break even; by 2020 he aims to be helping 20 million people a year see the world clearly.



THE CONSCIOUS CAPITALIST

BY BETH KOWITT



PHOTOGRAPHS BY
WESLEY MANN

WHOLE FOODS' EVANGELIST **JOHN MACKEY** HAS LONG WARNED ABOUT THE TOXIC THINGS WE PUT IN OUR BODIES. NOW HE'S ON A NEW MISSION: CLEANSING AMERICA'S FREE-ENTERPRISE SOUL.

A FEW YEARS AGO Whole Foods Market decided that organic food didn't go far enough. Never mind that organic is the upscale supermarket's largest product category, accounting for 25,000 items on its shelves. Never mind that co-CEO and co-founder John Mackey is almost surely the individual most associated with today's organic movement and most responsible for taking it mainstream. ¶ In Mackey's view, organic had grown stale. Its guidelines prohibit the use of synthetic fertilizers and pesticides, which is a good thing, he says. But they don't address all the burgeoning issues—from excessive water usage to the treatment of migrant laborers—facing agriculture today. And once farmers are certified as organic, Mackey believes they have little incentive to improve their practices. "Organic is a great system, but it's not a complete solution," he says. "We feel like Whole Foods should take a leadership role in this. Who else is going to do it?"

So in late 2014, Whole Foods rolled out a new rating system called Responsibly Grown, which measures factors like energy conservation, waste reduction, and farmworker welfare.

You could hear the blowback from Monterey County, Calif., to New York's Hudson Valley. Phone calls and emails flew from one local organic homesteader to another, with many fearing that the new rating system would undermine their brand. When Vernon Peterson of Abundant Harvest Organics in Kingsburg, Calif., brought the issue to the attention of the California Certified Organic Farmers organization, where he's treasurer, they unanimously decided, "We should fire every bullet we had." Eventually he and a handful of fellow farmers sent an open letter to Mackey, complaining that the new rating parameters were "onerous, expensive," and shifted the cost of marketing to growers, "many of whom are family-scale farmers with narrow profit margins." The *New York Times* picked up the story, airing it on the front page of the business section. NPR broadcast a lengthy segment on *Morning Edition*. Says Peterson: "This was a hill to die on."

In the end Whole Foods made some tweaks to the new program but hasn't backed down. The 62-year-old Mackey, for his part, seems utterly undaunted by the hullabaloo. Indeed, if there's one thing to be said about the man, it's that he has never been afraid of pissing people off. "I am absolutely a contrarian," he tells me at Whole Foods' Austin headquarters in one of the first of our many conversations for this story. "You need dissonance, and you need someone who is challenging things. Otherwise you get stuck."

The same term would certainly apply to Whole Foods itself right now: The company is in a period of dissonance, one that makes the attacks on its Responsibly Grown program seem like small organic purple potatoes. First came accusations, in June, that its stores overcharged customers in New York City—which prompted investor lawsuits as well. Then, in August, comedian John Oliver spent three minutes on HBO's *Last Week Tonight* mocking Whole Foods for selling bottled water laced with asparagus stalks...for $5.99. The company said it was a mistake, but the episode gave yet more currency to the notion that the chain dubbed "Whole Paycheck" was out of touch.

The store's numbers haven't been pretty either: Same-store sales growth last quarter was at its lowest level since 2009, a fact blamed in part on the New York City investigation and on the longer-term concern that it is facing stiff competition in the healthy-eating ethos up and down the grocery food chain—from Kroger and Walmart to Trader Joe's and Sprouts. All of this *Sturm und Drang* has been reflected in the company's stock price. In mid-August shares hit a three-year low, representing about a 50% loss of market cap since October 2013.

"They're getting Tom Brady-ed," says one Wall Street analyst of Whole Foods. "They're getting piled on."

"They're getting Tom Brady-ed," says BB&T Capital Markets analyst Andrew Wolf. "They're getting piled on."

What better time to test what is perhaps Mackey's most dissonant, brazen idea yet?

He calls it "conscious capitalism," a mode of doing business that attempts to create value for all stakeholders—employees, customers, community, shareholders—rather than sublimating the needs of the first three to those of the last. The idea is an old one, dating at least as far back as the 1980s, to the work of R. Edward Freeman, now a professor at the University of Virginia's Darden School of Business, whom many consider the father of "stakeholder theory." But Mackey, who co-authored a bestselling book

PREVIOUS SPREAD: GROOMING BY KATE MCCARTHY FOR VERT BEAUTY

on the theme in 2013, has become the closest thing to a modern-day spokesman for an idea that, dare we say, has found its time.

For evidence, consider the who's who of America's business and financial elite who have echoed the theme—often coining first-cousin terms like "compassionate capitalism" (Salesforce's Marc Benioff), "creative capitalism" (Bill Gates), and "just capital" (investor Paul Tudor Jones) to frame their philosophies (see "Doing Well by Doing Good" on page 58). Wrapped up in all these notions is the fundamental precept that profits and purpose should go together—and that companies that marry the two faithfully will outperform the competition over the long term.

That many investors flatly don't care about the long term is, of course, another matter. Wall Street cares largely about the now and the near future—and right now, and very likely in the near future, Whole Foods is struggling.

Mackey, once again, seems undaunted. "This is where your philosophy gets tested and when you get tested—your own commitment to it, your own integrity. It's all in question. It's all in play," he says. "If you're going to wreck your company or values just because you're being attacked, then you're not very deep."

DEEPLY, PROFOUNDLY, to his core, John Mackey is a capitalist. Though critics over the years have labeled him any number of things—anarchist, socialist, even Marxist—make no mistake, Mackey is a true believer in (mostly unfettered) free enterprise, and his love for it is like that of a convert who finds salvation later in life.

His conversion was not a peaceful one. He had been part of the food co-op movement—and when he abandoned that to start his own for-profit health food store, a group of his friends became ex-friends and gave him the nickname Darth Vader. (He had gone from the light to the dark.) "I got a lot of hate," he says. "But I didn't feel like I was evil because I was trying to earn a living and create stores better than the co-op. I didn't see why I had to apologize for that."

In many ways Mackey is still the old liberal, granola-chomping hippie he was in his early twenties: He is pro-choice, supports gay marriage, and is for the legalization of marijuana. Yet he also opposes labor unions and once penned a *Wall Street Journal* op-ed that ran under the headline THE WHOLE FOODS ALTERNATIVE TO OBAMACARE that endeared him to the Tea Party. He is a man who resists media training, although he says he is not as brash and provocative as he once was, that he's not as ego-driven. "He's so who he is every minute of every day," says Whole Foods CFO Glenda Flanagan, who has worked with Mackey for 26 years. "He doesn't change who he is for anybody or any circumstance."

"If I had adopted the general philosophy of the left, I would have been loved instead of hated," Mackey says. "I just couldn't do it. I'd rather be authentic and have my own intellectual integrity and have a lot of people misunderstand me. If they're going to attack me I can live with it."

He is far more sensitive, however, about attacks on Whole Foods. And while I'm in Austin this summer, the company is weathering a blow. The executive team is doing its best to respond to allegations by New York City's Department of Consumer Affairs that the company systemically overcharged customers for some prepackaged goods. Mackey and his co-CEO, Walter Robb, film a short video in front of the produce section, offering an apology—but insist the errors (having to do with the net weight of the products) were unintentional and were just as often in the customer's favor.

"This stuff goes viral," Mackey tells me, "because people are eager to believe bad things about Whole Foods so it doesn't disrupt their mental model" of business as selfish and greedy. It's similar to how people scrutinize his diet. "They want to catch me on stuff," says Mackey, who is a vegan and abstains from processed food. "They want to prove I'm a hypocrite. I think that's true for Whole Foods as a whole."

He believes that this prevailing narrative of business—as a selfish and exploitative enterprise—stems in part from intellectuals' attack on capitalism throughout history, which has fueled the public's mistrust and skepticism. But another key contributor to this perception, in Mackey's worldview, is that the dominant business theory of "profit maximization" has been a toxic one. "A metaphor I like to use is that my body can't live unless it's making red blood cells," he explains. "If I stop making red blood cells, I'd be dead in no time. It does not logically follow that the purpose of my life is to make red blood cells." The same logic applies to business. If a business does not make profits, it dies. But it does not follow that the purpose of business is to make profits.

In the early 2000s, Mackey began giving talks about a new business paradigm and a different kind of leadership, one based on Freeman's stakeholder theory. Central to the view is that these disparate groups aren't necessarily at odds. Corporate management teams that are taking action to benefit one stakeholder at the expense of another simply aren't thinking creatively enough. As Mackey explains, no one has to lose: Business can create an ever-expanding pie, one in which customers and employees and the community at large *should* benefit as a company grows larger and shareholders are rewarded.

A still more revelatory moment came when Mackey read an advance copy of the book *Firms of Endearment,* co-authored by Raj Sisodia, explaining how enterprises with passion and purpose outperform. "For a long time I thought Whole Foods was just a weird company and nobody was like us," he says, "and I read that book, and I realized that we were not alone." Sisodia visited Mackey in Austin, and the two started using the term "conscious capitalism," a phrase credited to Nobel Peace

Prize winner Muhammad Yunus, author of *Banker to the Poor* and founder of the Bangladeshi microfinance lender Grameen Bank (see No. 12 on our Change the World list, beginning on page 61).

Sisodia and Mackey invited a number of executives to a summit on the notion of purpose-driven business in 2008 and the following year created a nonprofit enterprise called Conscious Capitalism Inc. But to really spread the movement, Mackey and Sisodia knew they needed a manifesto of sorts: a book targeted at executives. "I felt like businesspeople needed to understand how much value they were creating in the world—that they were good people," Mackey explains. Says Rick Voirin, the chairman of Stagen, a leadership training firm, and a former board member of Conscious Capitalism: "It pains John that business leaders are thought of so lowly."

When *Conscious Capitalism: Liberating the Heroic Spirit of Business* debuted in 2013, it popped onto various business bestseller lists—but the readers who seemed to relate best to the message were fellow chief executives. "I never realized I was a conscious capitalist until John told me that was the title," says Panera Bread CEO Ron Shaich. "He's provided the ideology and language around the approach."

TWO YEARS LATER Mackey is still proselytizing. In mid-August he travels to the University Club of Chicago to give a talk sponsored by Unilever, a company in the broader shared-value movement. It's the sixth day I've spent with him for this story, but the only time I've seen him in anything but shorts. (He is wearing khakis and a Patagonia fleece in lieu of a blazer.) During his presentation, Mackey outlines what's required to be a conscious leader: analytical, spiritual, emotional, and systems intelligence. Analytical intelligence is what we teach in schools and entails dividing things up to understand them, he explains. Systems intelligence is the opposite—how the puzzle fits together. Later, over lunch (at a local Whole Foods), Mackey says that most people don't have systems intelligence—which is why many don't fully grasp stakeholder theory. They don't get the interdependence, he says. What's more, they think that if a corporation benefits from an action, the motive must be questionable.

But it's not as simple as being either self-interested or altruistic, he says. You can be both. Mackey offers the example of the company's "community giving days," which are held once per quarter. On those days 5% of a Whole Foods store's net sales are given to a local nonprofit. It's the stakeholder model at work, he contends: It creates goodwill with customers, motivates team members, and takes care of communities. "Is it good business for us to do these things?" asks Mackey. "Absolutely."

Consider the company's decision to open a store in Detroit, where about 40% live below the poverty line. The project was the brainchild of Robb, who was growing increasingly concerned by Whole Foods' reputation as a white, elite, expensive company. Whole Foods, he says, "was meant to be healthy food for the world, not just for a few people." Mackey, however, was skeptical at first: "I'm going to trust you on this, Walter, but I don't want to lose money," Robb recalls his partner telling him.

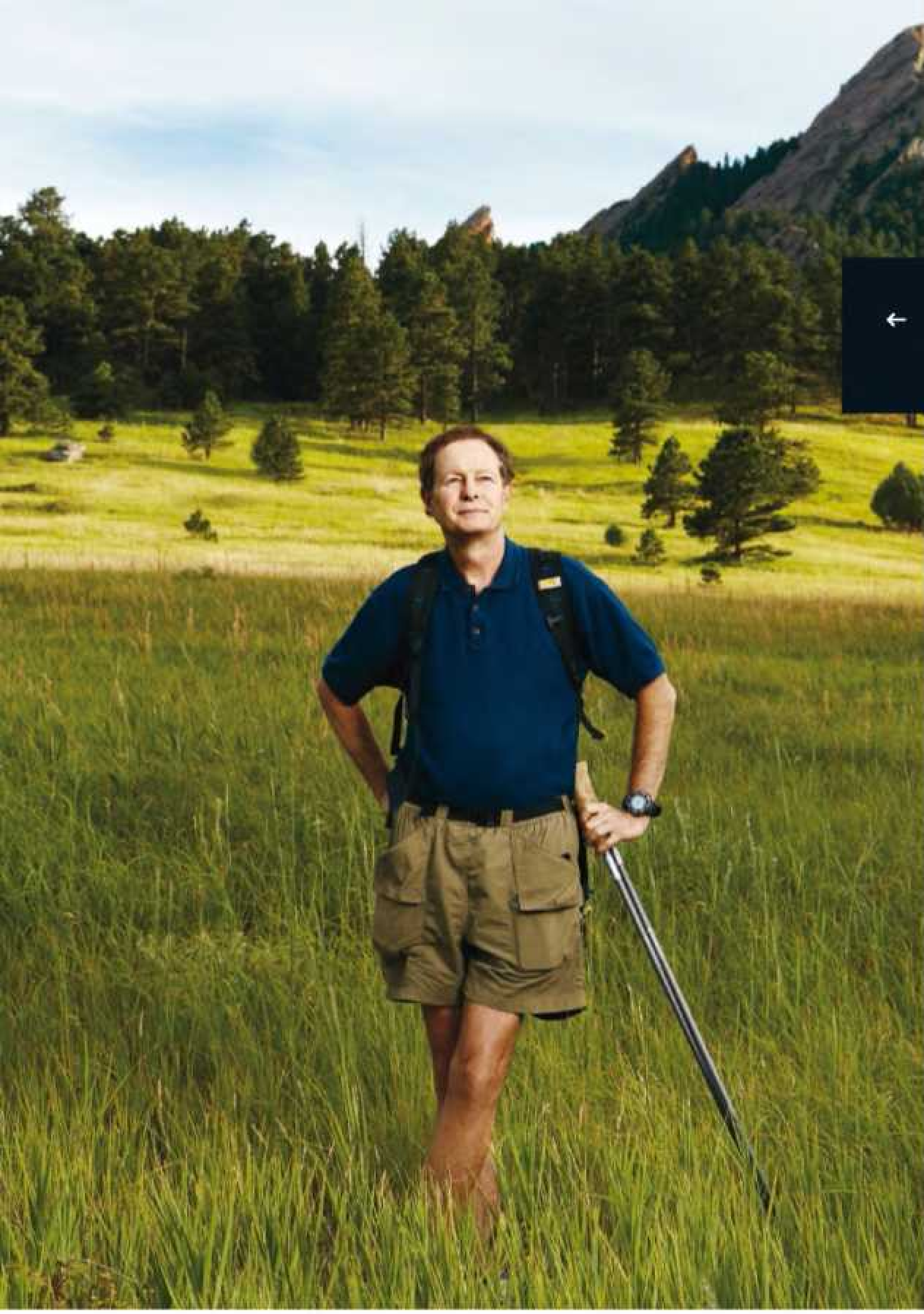
It took less than a year for the store to turn profitable—which led to plans for markets in Newark and Chicago's South Side (both slated to open as early as next year). But even more important, the Detroit location—with its smaller footprint, fewer products, and lower prices—offered a proof of principle that the company could appeal to a much broader group of shoppers than its current demographic.

The experiment had a surprising dividend: offering key lessons for Whole Foods' new "365" chain—smaller, lower-priced versions of the flagship brand that will begin rolling out next year. Detroit "gave us some confidence that we could go in this direction," Robb explains. "365 is an evolutionary strategy," says Mackey—a way to combat the competition and the next step in broadening access to healthy food, which is the company's core mission.

Such highfalutin talk may sound to many like marketing blather. But spreading the gospel of healthy eating is something Mackey is truly, unabashedly passionate about. As with capitalism, he was a late convert to the cause. He did not become interested in healthy food until joining the Austin co-op—a start he recognizes as way too late. "If I drop over from a heart attack," he says, "I'm blaming it on my early childhood poisoning."

> "I felt like businesspeople needed to understand how much value they were creating in the world—that they were good people," says Mackey.

MACKEY HAS SPENT the lion's share of his 62 years recovering from that food abuse. When he cooks dinner for me and members of his executive team at his home in Old West Austin in late June, the menu is salad—homemade, oil-less, vegan Caesar dressing on the side—local summer corn, sweet potatoes, and tofu with mushrooms, broccoli, and tahini. Mackey whips up avocado chocolate pudding for dessert with his Vitamix—his secret weapon



Mackey leans on his favorite lightweight Gossamer Gear hiking poles on a field in Boulder in August.

in the kitchen. When he travels he packs a rice cooker to make oats for breakfast. People scrutinize what Mackey eats, but he is known for being a refrigerator voyeur himself. He offended his wife, Deborah, on their first date by looking in her fridge—he wanted to see her level of "food consciousness."

For a *Fortune* 500 CEO, Mackey's home comes across as modest, decorated with furniture and art from India, where his wife travels frequently. Just off the front entryway is his "man cave," which sports an exercise bike, an inversion table, and his reading chair.

Mackey, a voracious reader, often has seven or eight books going at a time spanning from science fiction to economic theory. That intellectual thirst started in college, when he took mostly religion and philosophy classes and transferred back and forth between Trinity in San Antonio and the University of Texas at Austin. "I was not interested in ideas until then," he says.

Some days Mackey would go to the library at 8 a.m. and not emerge until after midnight. "I thought John was probably just the brightest kid at UT," says Kip Tindell, a college housemate of Mackey's and CEO of the Container Store, another company that's part of the conscious capitalism movement. "He's probably still the most interesting kid in Austin, Texas."

Mackey loved school but hated assigned texts. One night when he was reading *Being and Nothingness* by Jean-Paul Sartre, Mackey threw the book on the ground, dropped the course the next day, and decided he'd never read another book he didn't want to read. He identifies this as the moment when he started to take control of his life. He hitchhiked to New York, grew his hair out, and told his parents he might not get a degree. He dropped in and out of school—never graduating despite having well over 100 credits.

During this period, Mackey was overcome by the enormous diversity of thought in the world—the expanse of different religions and philosophies. He became a born-again Christian because of a girl he fell in love with. He went through an existential, atheistic stage and then became spiritual again—this time in a nonreligious way. He began to meditate. Today he sometimes calls himself a perennialist: a person who believes that beneath all religious traditions there is a universal truth found through spiritual experiences, not through faith or dogma.

He joined a vegetarian housing co-op—the story goes that he did it to meet interesting women. At the time he thought capitalism was the source of society's problems and that coop-

Blending Nonprofit With Profit

Whole Foods has launched three in-house foundations to address challenges facing the local—and global—community.

WHOLE CITIES
Founded in 2014
Helps those in lower-income communities—and in other places where fresh food is limited—get access to healthy offerings and nutrition education. It stems from the company's experience in its Detroit store.

WHOLE KIDS
Founded in 2011
Funds salad bars (4,091 so far) and gardens (3,014) in schools to combat poor nutrition among children. A salad bar can reduce food waste and eventually improve the bottom line for school lunch programs.

WHOLE PLANET
Founded in 2005
Gives grants to microfinance institutions in places where it does business. It has committed $64.1 million to date in 67 countries. It's based on the pioneering work of Muhammad Yunus's Grameen Bank.

COURTESY OF WHOLE FOODS

eration was better than competition. "It was a very seductive philosophy," he says. But the deeper he got into the co-op movement, the more he viewed it as dysfunctional—hijacked by the most politically active, who were more interested in boycotts than creating value for members. Mackey was sure he could do it better. He and his then-girlfriend, Renee Lawson, started SaferWay, which evolved into Whole Foods when it merged with the health food store across town.

His father was an accounting professor turned CEO of a small health care company, and he mentored his son in business. Mackey read tome after tome of economic theory—Milton Friedman, Friedrich Hayek, and Ludwig von Mises—with all of his discoveries pointing to a transformative revelation: Capitalism, he now believed, was humanity's single greatest invention. It made all other progress possible.

ON SEPT. 11, 2001, Mackey was on his way to the S&P ratings agency near the World Trade Center, close enough to the falling towers that debris rained down upon him. "It reminded me to take care of the things I wanted to do," he says in reflection. The next year he took a five-month sabbatical to hike the Appalachian Trail. Mackey gave himself the trail name Strider, pulled from one of his all-time favorite novels, *The Lord of the Rings*. "Strider was the grisly ranger, and nobody knew who he was, but he was secretly a king," he says. "While I was on the trail and I was Strider, nobody knew I was the king of Whole Foods Market."

Every couple hundred yards on the Appalachian Trail there's a two-by-six-inch blaze on a tree that lets hikers know they're on track. Mackey would joke with his friends that it would be great if life had these little blazes that said you're on the right path.

In the summer of 2006, Mackey was hiking when he was struck by the notion that he should go to a $1-a-year salary. Whole Foods already had progressive compensation policies. The entire executive team, which makes decisions by consensus, has the same paycheck, and the total cash compensation paid to any employee in a calendar year is restricted to no more than 19 times the average annual wage, including bonuses, of *all* full-time employees. But

Mackey felt as if he had made enough money in his life, and it increasingly bothered him that people would dismiss his arguments about conscious capitalism because of his pay. If he was really going to be a servant leader to Whole Foods, he didn't want any money conflict. "I wanted to take it off the table," he says. (The company donates stock options Mackey would have received to one of its foundations.) The only time he's ever had second thoughts was in 2008, when everything collapsed. The company suspended its dividend, and Mackey had no cash flow. "The best thing about doing something public," he says, "is you really are the hypocrite if you go back on it."

Mackey can often seem adamant about his beliefs, but he has a reputation for changing his mind. "John, more than most other high-profile people, is willing to make radical changes and complete changes on things," says Doug Rauch, the former president of Trader Joe's and the current CEO of Conscious Capitalism. The most prominent example took place in 2003 at a shareholder meeting in Santa Monica when Mackey got into a heated exchange with an animal-rights activist who said the company wasn't going far enough. Mackey took the summer to read a dozen books on livestock and animal agriculture and let it marinate while he hiked the Colorado Trail. When he got home, he sent her an email telling her she was right. That led to the company's animal-welfare rating standards that are in place today.

"If I had adopted the general philosophy of the left, I would have been loved instead of hated," Mackey says. "I just couldn't do it."

The episode inspired Mackey to go from vegetarian to ethical vegan. For the first year or two he ate eggs from the chickens at his country place outside Austin. But people were always bringing it up. So again he decided to "take it off the table." Says Mackey: "I was always having to explain. It was boring for me."

The animal-welfare standards, along with the company's sustainable-seafood policy (it sells no fish at low levels of abundance), Responsibly Grown ratings, and decision to become the first national grocery chain to label whether products contain genetically modified organisms, all show a bit of Mackey's libertarian streak. (He has given $50,000 to a Super PAC backing Rand Paul.) The company has no intention of waiting around until the USDA or some other governing body sets new rules.

His dismissiveness of such rule-making agencies may have been supercharged by past experience. In 2007—the last time, according to Mackey, that Whole Foods was in a cyclical trough—the company was facing off against the Federal Trade Commission, which had challenged Whole Foods' proposed acquisition of a smaller health food chain, Wild Oats.

During the legal wrangling, the FTC revealed that over a period of years—and under a screen-name alias—Mackey had been promoting his company (and taking the occasional potshot at Wild Oats) in more than 1,000 comments on Yahoo Finance message boards. The SEC, in turn, launched an informal investigation, which left Mackey reeling in anxiety.

That personal emotional bottom, however, led to an awakening of sorts. "I did a lot of spiritual work," he says, and came to the realization that if he wanted to continue to be the CEO of Whole Foods, there couldn't be any aspect of his life that was secretive or hidden that would be embarrassing should it become public.

The deal went through, and the SEC dropped the investigation without action. Afterward, Mackey didn't have any fear in his life, he says. He just let it all go. "Even with this crisis we're in now," he says, "I never felt anxious about it or nervous about it. I just don't feel that anymore."

But those who know Mackey say that, in fact, he does worry—not so much about doing the right thing but about figuring out what that right thing is. "One of the great things about John Mackey is he's opinion-rich, but he's educated," says Roy Spence, chairman and co-founder of advertising agency GSD&M and a longtime friend of Mackey's. "He will dog it until he understands what is the right thing to do."

Mackey is now working on a book called *The Whole Foods Diet,* based on eating 90% plant-based foods. Sitting on his patio at his summer house in Boulder, he pulls out his iPad to forward me an article on a new study from the Centers for Disease Control and Prevention that found that only about one in 10 Americans eats the recommended minimum five servings a day of fruit and vegetables. "Food culture in America is very toxic," he explains. "We're food addicts." Mackey starts rattling off statistics—54% of our calories come from refined sugars, grains, and oils—basically processed junk food; 32% from animal foods; only 14% are whole plant foods, and a good portion of that comes from fried potatoes. "That's the obesity problem right there—Americans eat calorie-dense foods." He adds, "I always say if we were to design a diet to kill people, this is what we would feed them."

These are not new ideas, but Mackey is creating a model for people to follow. He also has a louder megaphone than most. It's much like what he did with his first book in conveying what many may have already instinctively known or felt about capitalism. "Once they have a pathway, they can follow it, and everything is a lot faster and easier," he says. "I like creating those pathways."

Your Cybersecurity IQ

Establishing the Human Firewall

People are both a strength and a weakness in cybersecurity. Many employees are unaware of the threats. Others ignore security procedures in the name of productivity. IT security professionals are in short supply. Unless corporate leaders invest in the "human element" of cybersecurity, hackers will continue to exploit weaknesses in the human firewall.

1. EXPERTISE AND STAFFING

A "win" in today's cyber threat environment depends on how effectively companies respond to and extricate hackers from corporate systems. It takes manpower and expertise to manage this on a daily basis. As a result:

67% of IT security professionals strongly agree they need more experienced, skilled practitioners.[1]

44% of organizations say they are dissatisfied with investment in cybersecurity technology due to lack of in-house expertise to leverage it.[2]

2. LEADERSHIP AND ACCOUNTABILITY

Only business leaders can ensure that checks and balances are in place to hold all employees accountable for their role in protecting key assets. Yet:

66% of security staff do not believe their organization's senior leadership views security as a strategic priority.[1]

#1 risk regarding employee negligence is the inability to enforce security policies, even as security controls over employee devices improves.[1]

3. AWARENESS AND TRAINING

Even boardroom leaders are targeted and become victims of emails that deploy malicious cyber-weapons into the company. An effective human firewall relies on employee training programs that build awareness and change behavior. However:

62% of all organizations had not increased security training in 2014.[3]

Top 3 potential barriers IT security staff perceive in the next 3 years include a failure to stop human insider error (plus a lack of talent and actionable intelligence).[1]

Many Dell SecureWorks clients choose to optimize their existing resources by outsourcing some of the expertise and operations required by a mature security strategy. Dell SecureWorks can also help companies develop a vigilant workforce by testing the effectiveness of security operations and providing employee awareness training that aligns human behavior against the threats.

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SOURCES: **1.** Ponemon Megatrends 2015 **2.** Ponemon 2015 Global Study on IT Security Spending & Investments **3.** ECEDHA Conference March 2015

BY BRIAN DUMAINE

CAN A (BILLIONAIRE) HEDGE FUND MANAGER FIX INCOME INEQUALITY?

THE OTHER HALF
According to the Federal Reserve, 47% of Americans would struggle to pay an unexpected $400 bill.

FAMED INVESTOR **PAUL TUDOR JONES** BELIEVES THAT WE'RE HEADED FOR TROUBLE IF WE DON'T SHRINK THE WEALTH GAP. HIS SOLUTION? PRESSURE COMPANIES TO BE MORE JUST.

PHOTOGRAPH BY
PATRICK JAMES MILLER

ON THE TONY Belle Haven peninsula in Greenwich, Conn., overlooking Long Island Sound, sits a massive neoclassical house that looks as if it could have been transplanted from the University of Virginia campus, the alma mater of the property's owner: hedge fund billionaire Paul Tudor Jones II. A mansion on Greenwich's gold coast might not be the most obvious place to go looking for solutions to America's growing wealth gap. Yet it was there two years ago that Jones began hatching a plan to shrink the widening chasm between rich and poor.

Jones, 60, who has an estimated net worth of $4.5 billion, was having coffee one day with Deepak Chopra, the holistic medicine advocate and bestselling author, who knows the Wall Street titan through Jones's wife, Sonia, an Australian by birth who runs a yoga and wellness business. Chopra had grown deeply concerned about income inequality. "I had been going to Occupy Wall Street meetings and saw the rage but didn't see the solutions," he says.

During a spirited discussion with Jones about America's disappearing middle class, Chopra, who teaches a course at Columbia Business School called Just Capital & Cause-Driven Marketing, brought up an idea one of his students had suggested in class: create a stock market index that would drive capital to companies that treated their employees and communities well. The concept of a market-driven approach appealed to Jones, the onetime cotton trader who founded Tudor Investment Corp. in 1980, became famous by predicting the crash of '87, and today manages $13.8 billion. "I thought, Wouldn't this be a great thing to do?" says Jones.

"Change will not come the same way as the French Revolution, just as I'm sure the next terrorist attack will not be like the last. But what we're doing is not sustainable."

ARIANNA HUFFINGTON, JUST CAPITAL BOARD MEMBER

Jones did some quick research—and was both surprised and more than a little embarrassed to discover that taking a values-based approach to the stock market was hardly an original thought. So-called socially responsible investing, he soon learned, was a $6.6 trillion industry that had existed for decades. And yet it had never popped up on the radar of the hedge fund titan—or, Jones concluded, succeeded in putting much pressure on *Fortune* 500 companies to share more of their wealth with workers. That, he quips, is "a sad commentary both on the space and the space between my ears."

Then Jones had a different idea: competition. Why not rank America's top 1,000 companies based not on what Wall Street values—profits—but rather on what Main Street wants? If the list caught on, he reasoned, companies might someday vie to be ranked higher than their rivals. And to do so they would have to pay workers more fairly, make products more sustainably, and give more back to the community.

To put his plan into action, Jones earlier this year created a nonprofit called Just Capital—inspired by the title of Chopra's Columbia course. The mission is to research what makes people like or dislike corporations and then to create an annual list—which will debut in the fall of 2016—tentatively called the Just 1000. "We want to give the American public a voice where it's never had a voice," says Jones. "It's going to be crystal clear and unbiased and without prejudice. And it's going to drive corporate behavior."

Skeptics might wonder what kind of difference a simple list can make. But Jones believes that harnessing public opinion can prove powerful—and that changing the behavior of big companies could have a cascading effect. "When we talk about moving the needle on corporate America, we're talking about a scale that's unrivaled anywhere else on the globe," he says. "I actually think this has the potential to be the most impactful nonprofit that I've ever been involved with." (To read about 51 companies already having a positive impact, see our Change the World list in this issue.)

In the beginning Jones will personally provide most of the funding for Just Capital, which he estimates will need about $5 million to $6 million a year to operate. But he hopes the nonprofit will eventually become self sustaining by, for instance, selling companies tools to analyze their rankings on the Just 1000 list and through licensing deals. (Think WE'RE A JUST 1000 COMPANY! decals.) To avoid conflicts of interest, Just Capital will accept no corporate donations.

Jones has assembled a diverse collection of members for the Just board, which besides Deepak Chopra includes Huffington Post founder Arianna Huffington; Ray Chambers, the former head of the private equity firm Wesray Capital; former Shell executive John Hofmeister; Blake

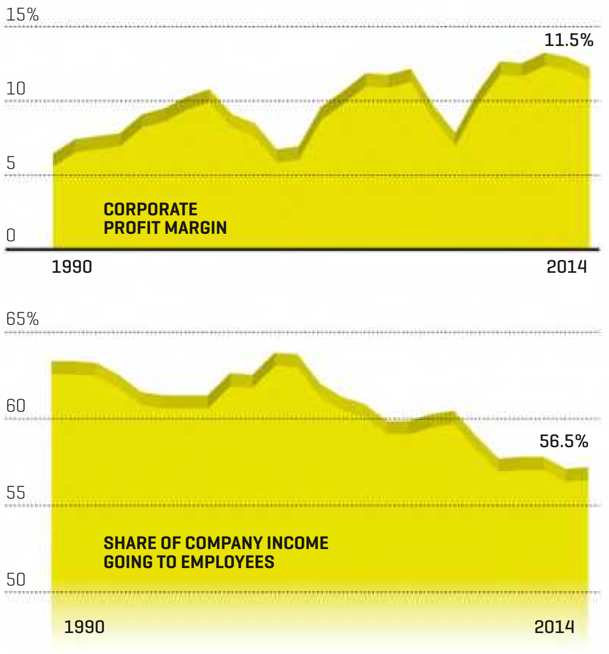
HUFFINGTON: ADELA LOCONTE—WIREIMAGE; PROTEST: VICTOR J. BLUE—BLOOMBERG VIA GETTY IMAGES

↑ Protesters rally for higher minimum wages for fast-food workers in New York City on April 15, 2015.

LABOR

A Costly Chasm

Corporate profit margins are hovering near 40-year highs, but workers' share has been steadily declining.



GRAPHIC SOURCES: U.S. BUREAU OF ECONOMIC ANALYSIS; FEDERAL RESERVE BANK OF ST. LOUIS; BUREAU OF LABOR STATISTICS

Mycoskie, the founder of Toms shoes, which gives away one pair to developing countries for each that it sells; and Jochen Zeitz, the former CEO of Puma who created PumaVision, an ethical framework defined by being fair, honest, positive, and creative. What do they have in common? "They all have big hearts," says Jones, half-jokingly. He says he is actively recruiting more former CEOs to make sure corporate America's point of view is represented.

But different perspectives won't alter his adamant belief that the system has gotten out of balance. "There's such an emphasis on making money that we've really taken the humanity out of business," he says. "And part of the reason is that we're not having the right value debate both in society and in our corporate boardrooms."

JONES IS WELL aware that many will question why a billionaire investor is suddenly so concerned about working-class families. Is it genuine? But he counters that caring about others has always been in his DNA. Jones grew up in Memphis and says his parents stressed Christian values and imbued him with a lifelong desire to give back. Jones recalls that his father, who ran a business newspaper, provided his workers with generous pensions even though his company was small. "He wanted to make sure that workers who gave their lives to his business were well taken care of," says Jones. In 1988, Jones founded New York City's Robin Hood Foundation, which now raises roughly $200 million a year, much of it from Jones's hedge fund peers, to fight poverty in New York City.

Last spring Jones shared his views about the need for a fairer society in a TED talk that so far has garnered more than 1.3 million online views. What attracted so many viewers was the sight of one of the richest men in the country coming right out and saying that the wealth gap is threatening America. One sound bite in particular generated a lot of buzz: "This kind of gap between the wealthiest and the poorest will get closed. History shows it usually ends in one of three ways—either higher taxes, revolution, or war. None of those are on my bucket list."

Is the situation really that dire? Just Capital board member Huffington thinks it might be. "If you look at the gun violence in Chicago, certain neighborhoods are becoming like a Third World city," she says. "We're seeing riots in inner-city Baltimore. What's that about? And the fact that everything is so segregated. We don't want to live in a country where we have to live behind gates with our children protected by guards." Huffington worries as well that wealth inequality can lead to extreme politics. "Change will not come the same way as the French Revolution, just as I'm sure the next terrorist attack will not be like the last," she says. "But what we're doing is not sustainable."

Another cause for concern is America's disappearing middle-class lifestyle. As Jones pointed out in his TED talk, when it comes to quality of life—wealth, life expectancy, literacy, social mobility, etc.—the U.S. comes in last, by a large margin, compared with 21 other developed nations. Real

wages for the working class have flatlined over the past four decades, while those for the top 1% have soared. Even more troublesome: Over that period productivity has increased by 80%, which means that most gains from productivity have gone to shareholders, not employees. The Federal Reserve conducted a study that nicely sums it up: Some 47% of Americans would be incapable of paying an unexpected $400 bill without selling something or going deeper into debt. In other words, one leaky roof and you're broke.

To reverse that trend, Jones believes that companies simply must pay their employees better—which he views as a far superior way to address income inequality than raising taxes. "Look, I frankly don't care about the level of my taxes that much," he says. "The reason I'm generally against higher taxes is because I think our government spending is commensurately as inefficient as the tax itself. If we can redistribute through the private sector, we can have a fivefold impact compared to redistributing wealth through fiscal means." Otherwise, some fear, we could be headed for an extreme tax hike, such as a jump to the 80% rate on income over $500,000 suggested by Thomas Piketty, the French economist and author of the recent bestselling book *Capital in the Twenty-First Century.*

With U.S. corporate profit margins now at 11.5%, near a 40-year high, Jones believes companies can afford to share more with their employees without hurting the bottom line. As many have pointed out, companies seem to have no trouble coming up with ever-expanding compensation packages for their top executives. The AFL-CIO reported that in 2014 the average pay of a CEO was 373 times that of the average employee—multiples of what it was a few decades ago. A new rule approved by the Securities and Exchange Commission in early August will require public companies to show the total annual compensation of the CEO as a ratio compared with the average worker.

But what about a CEO's duty to his shareholders? Jones argues that companies that treat their employees well will see better financial results over the long term. The poster child for that thinking is Starbucks, which provides its workers with generous health benefits and recently began offering to cover the cost of an online college education. Over the past three years Starbucks' stock has generated a total return of 156.5%, vs. 58.7% for the S&P 500.

The idea that workers should receive a bigger slice of earnings has been gaining traction of late. Companies including Walmart, Target, TJX, and McDonald's have recently announced plans to pay their employees more. At the same time cities from L.A. to Seattle to New York are planning to institute a $15 minimum wage, more than double the federal rate of $7.25 an hour. It's a good start but not enough. Jones hopes his list will tilt the balance.

RATING COMPANIES ON an abstract notion like how "just" they are isn't simple. "Coming up with a fair ranking system is what keeps me up at night," says Jones. The list will examine criteria such as environmental sustainability, ethics of top management, and the quality and price of a company's products.

It's likely that the results of Just Capital's survey will show that the top concern of Americans is to be paid a living wage—no surprise there. People also care strongly about having access to quality products at an affordable price, however. That will present a challenge when issuing grades. "You're going to have a variety of contradictions," says Jones. "But what we're going to do in a fastidious, detailed, and meticulous fashion is to drill down on Americans' preferences and provide an overall ranking."

Martin Whittaker, Just Capital's CEO, emphasizes that the nonprofit is neutral on the issues. It is merely channeling the 40,000 U.S. citizens polled in its survey, the results of which will be released in late September. "We're not trying to advance the corporate social-responsibility agenda," he says. "If we can simply improve transparency and information flow, companies will be motivated to be more just."

Gary Pinkus, the head of McKinsey's North American consulting practice, which is not affiliated with the Just Capital project, believes that the Just 1000 list could have an impact if the methodology is sound. And he says the subject is front-of-mind for executives today. "Prompting this discussion would certainly help," he says. "Our largest and most global companies are hyper-aware of what it means to operate in a way that is just and that operating only by quarterly profits will get them in trouble." Pinkus also points out, however, that the root causes of income inequality are more complex than what corporations pay people. It also has to do with whether people have adequate education, and how fast the economy is growing.

Before he wrote *The Wealth of Nations*, Adam Smith, the father of modern capitalism, penned *The Theory of Moral Sentiments*. In the book he stressed that capitalism had to have a moral foundation to be sustainable. Otherwise the rift between the rich and the poor would lead to "the highest degree of disorder." In a way, Jones is trying to get America back to the roots of capitalism. "Our society," he says, "is not where we want it to be in terms of how we think of ourselves as Americans. By attacking wealth inequality we can have a more stable, stronger society." And, he hopes, we can avoid what he fears deeply: war, revolution, and higher taxes.

COLOMBIA

Global Business worldwide
www.globalbusiness.uk.com

Peace and Prosperity: New Colombia Rising

Colombia is bucking global trends with a growing economy and strong investment figures that point the way toward societal and economic gains for all.

Geographically blessed, with direct access to the Caribbean Sea and the Pacific Ocean, Colombia is on the cusp of a boom. Add startling tourism destinations into the mix and the need for infrastructure improvements, and it is easy to see why the confidence that the new peace deal has brought is spreading throughout the Colombian nation.

Now the efforts of the government and population are focused on bringing about greater diversification of the economy. Peace—and the consequent stability it will bring—is the most important cornerstone on which Colombia can build its future. As María Ángela Holguín, Minister of Foreign Relations explains, the peace process has enabled the government to begin work on reducing inequality—although she stresses the need for investment into the country as a real driver for transformation.

"The reality has changed, and now we are working on replacing old perceptions to ensure that they match the current reality. Gaining our security back was like entering a virtuous circle—the moment security returned, people started to believe in future possibilities, which also ensures that foreign investment starts to flow into Colombia once again."

A city that is truly taking the minister's words to heart and pushing for growth is Cali, which is emerging as vibrant city focused on reducing inequality and at the same time projecting its image abroad, and is gaining importance as a city connected to Colombia's interior and the Pacific. With a unique quality of life, spectacular surroundings and a vibrant economy, Cali is becoming more attractive for foreign investment. Rodrigo Guerrero, mayor of Cali, highlights that his administration has been increasing access to basic human needs, such as education.

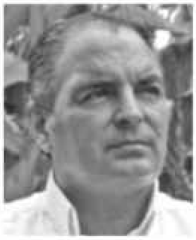
He explains, "We have a program called Territories of Inclusion and Opportunity, targeted at the eight poorest communities in Cali, in which we are focusing our investments. Last year, we invested $40 million to reduce the inequalities in education, health, and the environment. I am very interested in digital education, so we made an investment so that all public education includes technology. In addition, we have 23 higher education institutions with superb records, which produce an excellent workforce available to companies locally. Essentially, our quality of life, and the speed of change is what makes us special."

These sentiments of progress are echoed by Aurelio Iragorri, Minister of Agriculture and Rural Development, who explains that the government has five pillars around which it has wrapped its development plan: investigation, technology, productive chains, water and women. As he says, "The message to the international community is that this is a country of tremendous potential. We are awaiting investors with our open arms to help us help our people and our land. It is an opportunity for themselves, they should not miss the chance–others will not."

Grupo GHL, as one of the biggest companies in Latin America, has

María Ángela Holguín
Minister of Foreign Relations

Natalia Abello
Minister of Transport



Aurelio Iragorri
Minister of Agriculture and Rural Development

grown from a vision to become one of the most important Colombian companies. To support its vision of developing tourism so that Colombians could travel within their own country, the company started developing a modern network of hotel infrastructure. As Jorge Londoño, CEO of Grupo GHL, explains, "We have a superior knowledge of the market and the business, as we have been the pioneers in developing the modern concept of tourism within our sector. GHL's hotels always satisfy the expectations of our clients. Our brand is already a strong guarantee, as clients know that we operate to international standards."

The new development plans that are afoot envision quality as the watchword, and Natalia Abello, minister of transport, wants to ensure that the new infrastructure will bring wealth and ease of movement to market for both goods and people. As she says, "The government is currently ready to invest no less than $1.8 billion on infrastructure for transport under the umbrella of public-private partnerships. In addition to this, we have been consolidating our position as a logistics platform given our location. The country is developing infrastructure, namely roads, airports, ports, railways and river ways."

As the country finds itself in an increasingly dynamic business environment, a solution for rapid cross-country travel is needed, which is exactly where dbJet have stepped in. dbJet provides the whole transportation package, and as Alejandro Jaramillo, CEO of dbJet, explains, "We enable people to accomplish the dream of having their own airplane, at a more affordable cost than having to buy one. Once the project has reached a maturity status in Colombia, we will franchise it abroad. Airplanes are not stationed in the terminals as such, but parked in small stations–a small airport within the airport if you will, where VIP treatment is guaranteed as well as access to business facilities."

Fernando Mazuera y Cía are one of the premier construction and development companies in Colombia, and today the company continues to deliver projects of strategic importance for the city and the country. As Lorenzo Kling Mazuera, director general, explains, "We own strategic-oriented land and we have the expertise in developing big pieces of cities as well. We are not afraid of building big projects including streets and other features and we are looking forward to resolve more technical problems of our potential foreign partners. We are interested in how to become an international partner of foreign companies, specializing on international issues in the long term."

Opening Doors

Bogotá continues to welcome business, investment and tourism.

Meanwhile, Bogotá, Colombia's prosperous and cosmopolitan capital, is rapidly becoming an international benchmark city, thanks to the progress of the country as a unit and the vision of Mayor Gustavo Petro. With a population of 7.6 million inhabitants, a central location in Latin America, excellent connectivity and attractive trade agreements, it is not surprising that wise investors gather in the city to benefit from 1.4 billion potential customers. Under the guidance of Mayor Petro, there has been a marked shift towards social inclusion and incredible progress has been made in reducing poverty levels—according to national government data, no less than half a million people have escaped extreme poverty. Now the emphasis is on finding how best to redistribute wealth more fairly, and ensure that the population is the center of everything while the city is opening its doors to business, investment and tourism.

In an interview with *Global Business*, Mayor Petro explained the situation in more detail: "Although Bogotá benefits and earns revenue from gas and petroluem, we are indeed a capital formed of thousands of small entrepreneurs. That has given us specific conditions, and therefore our work style is different from the rest of the country. Bogotá has been a liberal city par excellence and in the last decade has been extremely progressive. For example, our poverty rates have been reduced to a single digit figure and extreme poverty is about to be eradicated. The city is becoming more equal. We have placed a strong emphasis on education, and early childhood care in particular. We have also made substantial progress on the issue of health, which is a critical problem in Colombia. Mortality rates have been reduced on a general level, but specifically in terms of infant and maternal mortality. We have made tremendous progress in integrating previously excluded populations living with the highest rates of poverty."

Gustavo Petro
Mayor of Bogotá

Mayor Petro believes that a fairer and more equitable city is more attractive and has greater influence on investors: "The attractiveness of the city does not lie in profitability, but in the fact that when executives and managers decide to come to Latin America, the name of Bogotá starts to appear more competitive and attractive. We want investors to help us to implement an honest and creative economy with the help of technologies that will drive the waves of development. Those investors willing to consider the aforementioned requirements are welcome. We want to promote the kind of investment that is built upon the city's needs," he says.

One of the challenges Mayor Petro is addressing is the city's adaptation to climate change. His development plan seeks to focus the city around water conservation, the implementation of friendly technologies and the prevention of environmental damage. This foresight has earned invitations to various international events on climate change, including the U.S., Austria, France, Spain, Brazil, Peru and more recently, the Vatican, under invitation by Pope Francis. Apart from being an award-winning business destination, Bogotá continues to consolidate itself as the main tourist attraction of Colombia, receiving international investors and leisure travelers thanks to its lifestyle and colorful life. Bogotá offers something for everyone: culture, history, cuisine, music, excellent museums, a vibrant rhythm, modern ideas, optimism and modern design.

Bogotá Surpasses Expectations

Tatiana Piñeros, the effusive director of the Institute of Tourism (IDT) explains how Mayor Petro's concept of citizenship has always been at the center of the city and the tourist policies.

"With regards to tourism development, the emphasis is on respect for the community, the surrounding culture, economic issues and additionally ecological issues. People should live close to their workplaces and not be relegated to living on the periphery. The atmosphere is the second axis of our development plan; we want to use clean technologies and restore our wetlands. As Colombia's premier tourism destination, Bogotá is well positioned for business tourism, but as our slogan says, it is also the city that surpasses your expectations. People may come for business, but they can also enjoy the culture, the cuisine, go shopping, take care of their health and enjoy our agro-tourist destinations—more than 70% of the periphery of the city is rural. My main goals are to combat outstanding issues regarding security: improve street lighting and promote other areas of the city that are not well known globally."

Tatiana Piñeros
Director
Institute of Tourism

There is an incredible variety of attractions in the city, says Piñeros. "We have Monserrate which stands beyond 3,152 meters above sea level and Zipaquirá located at 160 meters underground. We also have the temple of the Divino Niño, widely known for religious tourists in the region. Bogotá is also a "gay-friendly" destination. Most of the budget has been used to adapt and promote these tourism segments. In 2014 we won the recognition we needed and can now easily compete with other impressive developing cities. People have gastronomic cuisine, hotels, convention centers and golf courses at their disposal. Men and women can come here to do business or develop a business.

There are not many cities that have a market of 10 million people, as well as being geographically located in the center of the continent. It only takes about six to eight hours to get to Bogotá from the great capitals of South America. Bogotá has more than 38 direct international routes, the largest cargo airport in Latin America and is the third largest hub in terms of passenger flow. Several people came to inspect the city, and we were declared host of the Academy Awards of Tourism 2015. This is because Bogotá as a destination has what is needed to make people feel welcome. It boasts 465 tourist sites, more than 120 of which align with the parameters established by the World Travel Organization. Bogotá has more than 96 museums, and although it is widely known for the Gold Museum and the National Museum, there are many more that highlight the cultural and historical wealth of the country. The city also has more than 34 natural attractions and one of the best-prepared police forces in the world."●

BOGOTÁ
ABOVE YOUR EXPECTATIONS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FASTEST GROWING COMPANIES

LAST YEAR THERE WAS no doubt which sector dominated our list of companies with the most dramatic three-year explosions in revenue, profits, and stock price (see our methodology on page 102): 25 of the 100 names on our 2014 list produced, moved, refined, sold, or serviced oil and gas. This year the number is seven, thanks to the plunge in energy prices. But the collapse—call it the Great Shale Eclipse—opened the door for a wave of newbies on the list. Most notable: Facebook appears for the first time. As always, the list offers no shortages of story lines, including the inexorable rise of health care and the continuing housing rebound, along with surprise entries, such as the Texas Pacific Land Trust, which is still selling off assets from an 1888 railroad bankruptcy. It proves what boom-and-bust oil companies already knew: America is the land of comebacks.

BY SCOTT DECARLO, DOUGLAS G. ELAM, ORLAITH FARRELL, VIVIAN GIANG, AND KATHLEEN SMYTH

ILLUSTRATION BY FORGE & MORROW

FORTUNE

FASTEST-GROWING COMPANIES

ILLUSTRATION BY MOLISTUDIO

RANK 2015	RANK 2014	For an explanation of Fortune's methodology, go to the end of the list.	EARNINGS PER SHARE: THREE-YEAR ANNUAL GROWTH RATE (%)	EARNINGS PER SHARE: RANK
1	29	**LANNETT** *Philadelphia*	314	1
2		**NATURAL HEALTH TRENDS** *Dallas*	97	17
3		**FEDERATED NATIONAL HOLDING** *Sunrise, Fla.*	112	11
4		**CENTENE** *St. Louis*	113	10
5	42	**NOAH HOLDINGS**[1] *Shanghai*	64	35
6		**ACADIA HEALTHCARE** *Franklin, Tenn.*	76	26
7		**QIHOO 360 TECHNOLOGY**[1] *Beijing*	78	25
8		**WISDOMTREE INVESTMENTS** *New York City*	91	19
9		**GILEAD SCIENCES** *Foster City, Calif.*	67	32
10		**FACEBOOK** *Menlo Park, Calif.*	105	13
11		**CHINA DISTANCE EDUCATION HOLDINGS**[1] *Beijing*	70	31
12		**AERCAP HOLDINGS** *Amsterdam*	58	38
13		**ALLIANCE FIBER OPTIC PRODUCTS** *Sunnyvale, Calif.*	63	37
14	12	**GENTHERM** *Northville, Mich.*	140	4
15		**METHODE ELECTRONICS** *Chicago*	121	7
16		**ENVESTNET** *Chicago*	54	44
17	11	**COLFAX** *Annapolis Junction, Md.*	183	3
18		**GASLOG**[2] *Monte Carlo, Monaco*	81	23
19	13	**LIGAND PHARMACEUTICALS** *La Jolla, Calif.*	43	55
20		**CONSTELLATION BRANDS** *Victor, N.Y.*	44	51
21		**SKECHERS U.S.A.** *Manhattan Beach, Calif.*	232	2
22		**TASER INTERNATIONAL** *Scottsdale*	74	29
23		**NAUTILUS** *Vancouver, Wash.*	103	14
24	25	**UNIVERSAL DISPLAY** *Ewing, N.J.*	107	12
25	47	**TAL EDUCATION GROUP**[1] *Beijing*	39	61
26		**UNIVERSAL INSURANCE HOLDINGS** *Fort Lauderdale*	78	24
27	63	**AMTRUST FINANCIAL SERVICES** *New York City*	40	58
28		**ILLUMINA** *San Diego*	58	40
29		**STANDARD PACIFIC** *Irvine, Calif.*	103	15
30		**MICHAEL KORS HOLDINGS**[3] *London*	75	27
31	2	**HCI GROUP** *Tampa*	50	47
32	6	**UNITED RENTALS** *Stamford, Conn.*	85	22
33		**NATUS MEDICAL** *Pleasanton, Calif.*	138	5
34		**ASTRONICS** *Aurora, N.Y.*	26	90
35		**PARK STERLING** *Charlotte, N.C.*	74	28

†Through the quarter ended April 30, 2015.
[1] Incorporated in the Cayman Islands. [2] Incorporated in Bermuda.
[3] Incorporated in the British Virgin Islands.

NET INCOME	REVENUE		REVENUE	TOTAL RETURN			
PAST FOUR QUARTERS† ($ MILLIONS)	THREE-YEAR ANNUAL GROWTH RATE (%)	RANK	PAST FOUR QUARTERS† ($ MILLIONS)	THREE-YEAR ANNUAL RATE* (%)	RANK	P/E, CURRENT FISCAL YEAR PROFITS (EST.)	
140	51	9	388	141	2	14	Rising health care spending and an aging population mean good health for this generic-drug maker (even as the government investigates industry pricing).
24	60	5	142	222	1	14[A]	Hong Kong, China, and Taiwan account for 94% of revenues for this multilevel marketer of beauty and nutritional supplements.
38	57	6	206	84	7	11	Sunny skies for this Florida home insurer: Rates climbed even as mega-disasters (read: devastating hurricanes) remained largely at bay.
301	44	18	18,231	75	16	25	Obamacare pays off for this health care provider, which insured 1.2 million more Medicaid beneficiaries last year than the year before.
77	60	4	269	84	8	17[A]	The affluent class in China gains mass—700,000 people had more than $1.6 million in assets as of 2013—sending money flooding to this wealth manager.
85	61	3	1,169	65	23	37	Five acquisitions and 27 new facilities meant nine consecutive quarters of double-digit profit growth for this psychiatric and chemical dependency services provider.
227	99	1	1,510	58	29	23	Chinese Internet-security giant expands and expands with antivirus software, smartphones, tech products, search engines, and a new VC fund in Silicon Valley.
43	47	14	201	50	37	34	The soaring popularity of exchange-traded funds translates into $63 billion in assets under management and a $3 billion market cap for this ETF seller.
14,207	43	21	27,485	66	21	10	Two drugs for hepatitis C, Harvoni and Sovaldi, helped sales top $7 billion during the final quarter of 2014 for this biopharma company.
2,810	51	8	13,507	40	56	70	Advertising, including for videos, boosted Facebook's results—its first appearance on this list. Once seen as having no profit model, it earned $2.9 billion last year.
24	33	37	104	77	12	23	Chinese online education provider earns an A in revenue growth (86% since 2012) as its 18 websites attracted 3.2 million enrollments last year.
1,089	42	23	4,687	60	28	8	Profits and earnings for this aircraft-leasing company took wing after the $7 billion acquisition of International Lease Finance Corp. last year.
13	33	36	83	67	20	16	Moving at light speed: Internet and other networks need fiber-optic connections, and Alliance provides components such as adapters, cables, and optical fibers.
73	24	72	824	68	19	22	Do you like having your car seat warmed on a frigid day? Of course you do. This supplier for Ford, GM, and Nissan achieved record revenues last quarter.
101	28	52	881	50	38	13	Another one cashing in on good times at GM and other car companies: Maker of touch-sensitive screens as well as technology for radio and biometric ID thrives.
14	46	16	367	50	40	56	"The adviser to the adviser" provides software and services for financial firms that managed 2.9 million accounts. Revenues have more than doubled since 2012.
397	51	10	4,481	19	88	20	Bingeing on deals: From January 2012 to July 2014, this pump and valve manufacturer bought 12 companies.
40	84	2	369	29	79	25	The surge in sales of liquefied natural gas benefits this specialized shipper (serving mostly BG Group and Shell); revenues have flared up 379% since 2012.
11	31	41	63	81	9	38	An aggressive shopping spree for early-stage drugs helped this biotech firm more than double its revenues since 2010.
839	37	31	6,028	63	25	24	*¡Salud!* Strong demand for Constellation's Mexican beers, including Corona and Modelo, injected some fizz into the alcohol giant's results.
164	19	92	2,599	75	14	29	Sweat success: The popularity of "athleisure" wear has this sneaker and apparel maker running up our list with a 56% leap in international sales in 2015's first half.
24	22	78	173	85	6	63	After helping arm the authorities with Tasers, the company is now benefiting from the move to monitor policing: It's chalking up record sales of body cameras.
24	16	98	299	87	5	25	This maker of gym equipment has been toning itself back into shape—but (like most of us) hasn't reattained the muscly peak of its younger days.
39	49	12	184	**13**	93	43	If you own a Samsung Galaxy phone, you have an organic LED screen made by this company; now a possible deal with Apple is lighting up shares.
67	39	27	434	56	33	31	Chinese tutoring service aces its homework with an almost 50% enrollment improvement year-over-year as competition intensifies to get into the best schools.
82	18	93	399	103	4	12	Another property and casualty insurer enjoys the hurricane-free period in Florida and expands into 13 states.
505	46	15	4,248	41	52	12	Strong economy creates need for workers' comp policies and warranties for big purchases, services offered by this small-business and "specialty risk" insurer.
430	23	75	1,979	76	13	63	High demand for genetic sequencing tests helped biotech manufacturer boost revenues 31% last year. (Employees are not in fact referred to as "illuminati.")
209	40	26	2,445	**13**	92	14	Housing rebound spurs Standard Pacific, which has announced a merger with fellow homebuilder Ryland and will soon be known as CalAtlantic Group.
881	52	7	4,371	**0**	100	9	Kors for concern? Handbag and fashion brand expanded so rapidly—it opened 121 new stores last year—that same-store sales growth dropped noticeably.
70	37	32	280	40	55	8	Who knew how crucial Florida weather is? Another property and casualty insurer enjoys placid times, bolstered by revenues from windstorm policies.
595	27	53	5,822	37	60	8	United Rentals helps energy companies extract oil (and profits) with equipment that, among other things, pushes crude out of deep wells.
34	16	97	360	54	34	30	Increasing adoption of Natus's equipment, such as devices that screen newborns' hearing or perform neurological tests, yields 12 years of rising revenues.
59	43	20	682	60	27	20	As air travel rebounds, this aircraft supplier—everything from airplane lighting to safety equipment to antenna systems—has taken off.
13	43	19	103	**16**	90	18	Regional bank stocked up on smaller players from 2011 to 2014, buying CapitalBank, Citizens South Bank, and Provident Community Bank.

* Through June 30, 2015. The S&P 500 returned 17.3% annually over the same period. **(Company returns lower than that of the S&P are bolded.)**
[A] P/E estimates for the current fiscal year are not available. The figure shown is the trailing 12-months P/E ratio.

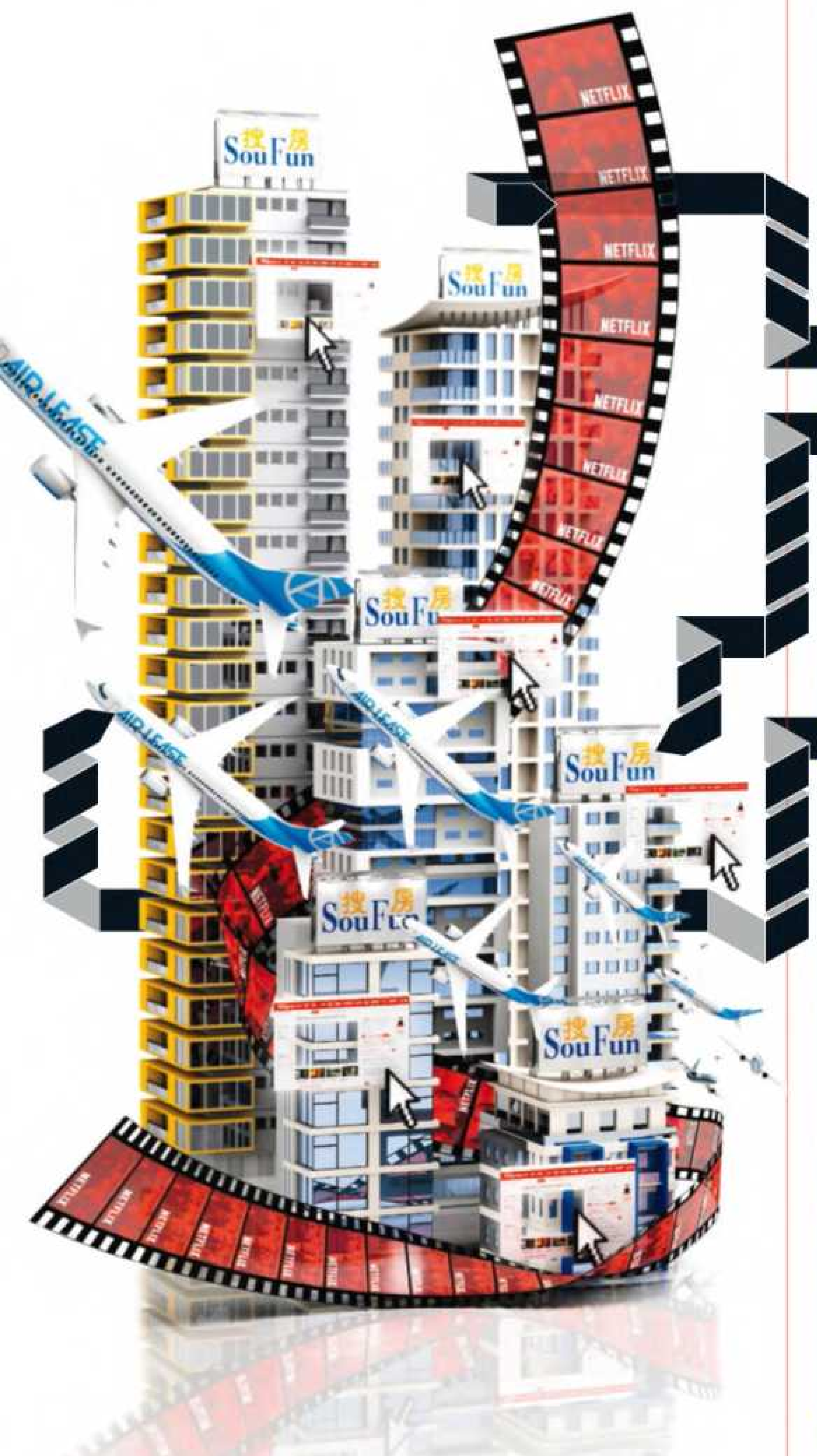

ILLUSTRATION BY HIT AND RUN

RANK 2015	RANK 2014	For an explanation of Fortune's methodology, go to the end of the list.	EARNINGS PER SHARE: THREE-YEAR ANNUAL GROWTH RATE (%)	EARNINGS PER SHARE: RANK
36	30	**FLEETCOR TECHNOLOGIES** *Norcross, Ga.*	32	75
37	3	**ON ASSIGNMENT** *Calabasas, Calif.*	39	62
38	17	**EAGLE MATERIALS** *Dallas*	89	21
39		**PACKAGING CORPORATION OF AMERICA** *Lake Forest, Ill.*	58	39
40	24	**LITHIA MOTORS** *Medford, Ore.*	31	77
41		**M/I HOMES** *Columbus*	93	18
42	4	**PATRICK INDUSTRIES** *Elkhart, Ind.*	25	95
43		**U.S. SILICA HOLDINGS** *Frederick, Md.*	33	74
44		**GAIN CAPITAL HOLDINGS** *Bedminster, N.J.*	56	42
45		**UNITED INSURANCE HOLDINGS** *St. Petersburg*	25	93
46		**NETFLIX** *Los Gatos, Calif.*	37	67
47	72	**EVERCORE PARTNERS** *New York City*	118	9
48	22	**SOUFUN HOLDINGS**[1] *Beijing*	37	66
49	32	**ASPEN TECHNOLOGY** *Bedford, Mass.*	123	6
50		**PGT** *North Venice, Fla.*	26	89
51	20	**ALEXION PHARMACEUTICALS** *Cheshire, Conn.*	43	53
52	49	**SS&C TECHNOLOGIES** *Windsor, Conn.*	46	49
53	39	**TOLL BROTHERS** *Horsham, Pa.*	52	45
54	15	**LIONS GATE ENTERTAINMENT**[4] *Santa Monica*	118	8
55		**AIR LEASE CORPORATION** *Los Angeles*	45	50
56	69	**BOFI HOLDING** *San Diego*	30	83
57		**UBIQUITI NETWORKS** *San Jose*	50	46
58		**KAPSTONE PAPER AND PACKAGING** *Northbrook, Ill.*	17	99
59		**EPAM SYSTEMS** *Newtown, Pa.*	17	100
60		**US ECOLOGY** *Boise*	18	98
61		**ABIOMED** *Danvers, Mass.*	65	34
62	55	**UNDER ARMOUR** *Baltimore*	27	87
63		**CAESARSTONE SDOT-YAM** *MP Menashe, Israel*	34	71
64		**CHASE CORP.** *Bridgewater, Mass.*	44	52
65		**SKYWORKS SOLUTIONS** *Woburn, Mass.*	41	56
66	23	**TRINITY INDUSTRIES** *Dallas*	63	36
67	56	**WINNEBAGO INDUSTRIES** *Forest City, Iowa*	66	33
68	40	**ULTIMATE SOFTWARE GROUP** *Weston, Fla.*	102	16
69	35	**LENNAR** *Miami*	43	54
70		**G-III APPAREL GROUP** *New York City*	28	86

† Through the quarter ended April 30, 2015.
[1] Incorporated in the Cayman Islands. [4] Incorporated in Canada.

NET INCOME PAST FOUR QUARTERS† ($ MILLIONS)	REVENUE THREE-YEAR ANNUAL GROWTH RATE (%)	REVENUE RANK	REVENUE PAST FOUR QUARTERS† ($ MILLIONS)	TOTAL RETURN THREE-YEAR ANNUAL RATE* (%)	TOTAL RETURN RANK	P/E, CURRENT FISCAL YEAR PROFITS (EST.)	
388	32	39	1,362	65	24	26	Uber drivers will be the latest to use FleetCor's corporate payment cards to buy gas (in the drivers' case) as well as meals and hotel rooms.
102	50	11	1,883	35	66	15	It's a part-time economy, and not surprisingly, this temp provider (specializing in tech, life sciences, and "creative" fields) is enjoying full-time success.
187	31	40	1,066	28	81	17	Constructing profits: Maker of building materials such as concrete and wall-board comes roaring back along with the housing industry.
393	33	35	5,847	34	70	15	Someone's got to make all those boxes Amazon.com ships stuff in, and PCA is one of them; it recently ended a streak of double-digit quarterly earnings increases.
155	26	59	6,101	71	17	17	What's it going to take to put you in this ... chain of auto dealerships? Lithia is accelerating because of nine acquisitions and the auto industry comeback.
48	30	43	1,243	**13**	94	13	A 9% increase in housing prices in 2014 helped this builder of single-family homes overcome a slight drop in the number of contracts.
33	32	38	789	65	22	18[A]	Maker of building products for trailer homes and recreational vehicles puts the pedal to the metal, upping latest quarterly sales 24% vs. the same period in 2014.
118	39	28	901	41	54	42	Provider of silica sand for fracking (and other things) rode the boom and is now feeling the bust as quarterly revenues fell 28%.
36	34	34	386	28	80	17	Recent purchase of trading platform City Index lifts this financial services firm's client funds to more than $1.1 billion.
30	45	17	295	45	46	14	Have we mentioned that sunny, calamity-free times have given a vitamin C injection to Florida insurers? Strategic expansions also contributed in this case.
237	20	88	5,808	112	3	415	Netflix is a phenomenon. It now boasts 65.5 million subscribers, many of whom binge-watch its series, such as *House of Cards* and *Orange Is the New Black*.
81	21	84	1,021	35	65	18	Boutique investment bank founded by Roger Altman punches above its weight, advising the likes of AT&T, DuPont, AstraZeneca, and Tribune Media.
218	29	46	705	45	47	37	Before the stock-trading frenzy in China was the homebuying frenzy in China, which was facilitated by this Internet real estate portal.
114	24	70	428	25	83	27	Increasing demand from the energy and chemical industries buoyed this provider of software, which streamlines processes and reduces errors.
20	27	55	339	69	18	24	PGT's hurricane-proof windows and doors do a blowout business in Florida, where storm defenses are crucial.
589	40	25	2,267	22	86	38	Soliris, this biopharma company's lucrative drug for rare blood disorders, helped infuse 24% sales growth in the second quarter of 2015.
131	28	51	788	36	64	28	With financial services companies dotting this list, little surprise that a specialist in specialized software for such firms ranks too.
378	42	22	4,114	**9**	98	18	Another rebounding homebuilder, Toll signed $3.9 billion in contracts in 2014 and acquired Shapell Industries (and its California land portfolio) for $1.5 billion.
182	16	96	2,400	37	62	25	From Katniss Everdeen to Don Draper: The studio behind *The Hunger Games* and *Mad Men* drops down the list due to fewer releases, but revenues hold steady.
214	39	29	1,083	21	87	12	This aircraft-leasing company is flying, propelled by a young fleet worth $9 billion and resurgent profitability among airlines.
74	25	68	252	75	15	14	BofI (it stands for Bank of Internet) was boffo as customers continue to flock to online banking and deposits mounted 46% last year.
175	29	47	607	32	75	14	Helping emerging markets around the world get online paid off for this manufacturer of wireless and networking products, which boasts margins of nearly 30%.
166	37	30	2,298	48	42	13	Pulp nonfiction: Paper and packaging player printed up a 32% revenue increase last year because of higher selling prices and a major acquisition.
67	29	45	770	61	26	41	The address says Pennsylvania, but much of the software engineering EPAM does for the likes of Colgate-Palmolive and Halliburton is outsourced to Eastern Europe.
35	41	24	531	43	49	24	The acquisition of EQ Holdings helped this hazardous- and radioactive-waste-disposal company to results—profits were up 85%—that were anything but toxic.
114	20	87	230	42	50	124	This producer of small heart pumps hasn't missed a beat as the FDA approved Impella 2.5, a version of its flagship device for high-risk patients.
206	28	50	3,248	52	35	91	Performance sportswear maker credits growing interest in high-tech gear for a 28% leap in profits last year. Revenues topped $3 billion.
82	20	90	461	79	11	28	Stylish and solid: This maker of quartz kitchen countertops—founded in a kibbutz—is now a supplier to Ikea.
24	23	76	227	47	44	14[A]	The *other* Chase sells adhesives and specialty wire and cable for industrial and construction uses with growth spurred by moisture-resistant products.
648	20	85	2,873	57	32	20	Customers such as Samsung, LG, and, reportedly, Apple, supercharge results for this maker of semiconductors for mobile devices, among many things.
632	26	62	6,336	30	76	6	Despite a $663 million judgment over allegedly subpar highway guardrails (Trinity is appealing), this diversified industrial is on track due to record orders of railcars.
42	24	69	953	33	72	13	Retirement means RVs, and the wave of baby boomers turning 65 is keeping the iconic motor-home maker on the comeback trail.
42	24	74	530	23	85	141	The cloud is lifting this software-via-web provider, which delivers HR, payroll, and benefits management and enjoys 96% customer retention.
676	37	33	8,061	19	89	16	Homebuilder, pounded during the real estate crash, digs its way back to profits in the recovery, though revenues are still less than half their peak.
116	21	83	2,184	81	10	25	Talk about dressing up: Producer of clothes and accessories for Calvin Klein, Tommy Hilfiger, and Guess spun sales of more than $2.1 billion in 2014.

* Through June 30, 2015. The S&P 500 returned 17.3% annually over the same period. **(Company returns lower than that of the S&P are bolded.)**
[A] P/E estimates for the current fiscal year are not available. The figure shown is the trailing 12-months P/E ratio.

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71		**DELTIC TIMBER** *El Dorado, Ark.*	90	20
72		**BIOGEN** *Cambridge, Mass.*	35	69
73		**MOLINA HEALTHCARE** *Long Beach*	28	85
74	31	**ARGAN** *Rockville, Md.*	38	65
75		**PROTO LABS** *Maple Plain, Minn.*	36	68
76	70	**CHICAGO BRIDGE & IRON** *The Hague, Netherlands*	30	81
77		**WESTERN REFINING** *El Paso*	72	30
78		**SUCAMPO PHARMACEUTICALS** *Bethesda, Md.*	38	64
79	59	**SILICOM** *Kfar Sava, Israel*	25	94
80		**CONN'S** *The Woodlands, Texas*	31	79
81		**SPIRIT AIRLINES** *Miramar, Fla.*	35	70
82		**PANHANDLE OIL AND GAS** *Oklahoma City*	55	43
83		**LAM RESEARCH** *Fremont, Calif.*	48	48
84	79	**KINDER MORGAN** *Houston*	41	57
85	71	**MIDDLEBY** *Elgin, Ill.*	25	92
86	80	**OMNICELL** *Mountain View, Calif.*	40	59
87		**OMEGA FLEX** *Exton, Pa.*	33	72
88		**MAXIMUS** *Reston, Va.*	31	78
89	33	**TARO PHARMACEUTICAL INDUSTRIES** *Haifa Bay, Israel*	32	76
90		**ANIKA THERAPEUTICS** *Bedford, Mass.*	57	41
91		**AMERICAN EQUITY INVESTMENT LIFE** *Des Moines*	27	88
92		**GENESEE & WYOMING** *Darien, Conn.*	31	80
93		**TEXAS PACIFIC LAND TRUST** *Dallas*	30	82
94		**VIRTUSA** *Westborough, Mass.*	22	97
95		**FINANCIAL ENGINES** *Sunnyvale, Calif.*	33	73
96		**DIAMOND HILL INVESTMENT GROUP** *Columbus*	26	91
97	61	**HAIN CELESTIAL GROUP** *Lake Success, N.Y.*	23	96
98		**SUPER MICRO COMPUTER** *San Jose*	39	63
99		**NET 1 UEPS TECHNOLOGIES**[5] *Johannesburg, South Africa*	39	60
100		**AMC NETWORKS** *New York City*	29	84

† Through the quarter ended April 30, 2015.
5 Incorporated in the U.S.

2015 FASTEST-GROWING METHODOLOGY: To qualify, a company—domestic or foreign—must be trading on a major U.S. stock exchange; report data in U.S. dollars; file quarterly reports with the SEC; have a minimum market capitalization of $250 million and a stock price of at least $5 on June 30, 2015; and have been trading continuously since June 30, 2012. Companies must have revenue and net income for the four quarters ended on or before April 30, 2015, of at least $50 million and $10 million, respectively; and have posted an annualized growth in revenue and earnings per share

ILLUSTRATION BY CWF 3D STUDIO

NET INCOME	REVENUE		REVENUE	TOTAL RETURN			
PAST FOUR QUARTERS† ($ MILLIONS)	THREE-YEAR ANNUAL GROWTH RATE (%)	RANK	PAST FOUR QUARTERS† ($ MILLIONS)	THREE-YEAR ANNUAL RATE* (%)	RANK	P/E, CURRENT FISCAL YEAR PROFITS (EST.)	
16	26	64	220	**4**	99	65[A]	Timber! Deltic plants and harvests more than 530,000 acres of forest in Arkansas and Louisiana, and sales have risen 61% since 2012.
3,277	26	63	10,129	41	53	19	Sales of multiple sclerosis drug Tecfidera helped treat this pharmaceutical firm to a hale 2014 (though recent results missed targets).
86	27	54	10,768	44	48	26	Obamacare gave a booster shot to this insurer, which sells to predominantly low- and middle-income customers, to a 38% enrollment increase in the first quarter.
34	23	77	417	47	45	16[A]	Powering up: Revenues amped up 69% year-over-year for the electric-plant designer and builder because of two new projects in the Marcellus Shale region.
42	28	49	222	33	71	39	Need an injection-molded part quickly? Proto makes plastic, metal, and silicon parts for some 20,000 low-volume customers who order online.
587	48	13	13,173	**10**	97	9	Energy production may be slowing, but this designer and builder of infrastructure still had an order backlog worth $30 billion as of the end of 2014.
580	18	94	13,747	34	68	9	Western refines about 250,000 barrels a day and added 31 convenience stores to its Southwestern herd of Giants, Howdy's, Mustangs, and Sundials.
19	27	56	123	33	73	38	Know what prostones are? No, they're not a Mexican delicacy; they're chemicals, and Sucampo's drug version treats gastrointestinal ailments such as IBS.
14	28	48	75	42	51	15[A]	Helping data centers work more efficiently—Silicom's mission—is a good business to be in during the ascendance of cloud computing.
46	26	58	1,515	39	57	15	Just the opposite of what you'd expect: This retail chain stopped selling cameras, videogames, and tablets and did better with appliances and furniture.
257	22	82	1,987	47	43	14	Ultralow-cost airline keeps spending and amenities (as any customer can tell you) so Spartan that it generates an impressive 18.4% operating margin.
25	27	57	92	**12**	95	12[A]	This venerable explorer (but not producer) gushed profits during the oil boom—then bought a big parcel in the Eagle Ford Shale just before prices swooned.
758	24	71	5,027	30	77	13	LAM makes equipment that allows ever smaller features on chips. One specialty: 3D NAND technology used by Samsung and Intel for flash video and animation.
1,168	30	44	15,776	**11**	96	44	With 84,000 miles of oil and gas pipelines across North America, Kinder Morgan played an integral role in the fracking feast that began cooling last year.
198	25	66	1,671	50	39	30	The kitchen equipment manufacturer cooked up six acquisitions in 18 months, including British icon AGA Rangemaster in July.
31	22	81	455	37	59	43	Omnicell's software helps hospitals and pharmacies manage medicine distribution, a seemingly ever-burgeoning business.
14	16	95	90	52	36	21[A]	Another beneficiary of the housing rebound, Omega makes stainless-steel pipes that can be bent by hand and are used in homes for gas and hot-water systems.
151	25	67	1,804	37	61	28	If you called to complain about Obamacare, you may have spoken to somebody at Maximus. That's just one service this contractor provided for the U.S. government.
484	15	100	863	57	30	12[A]	Israeli generic-drug maker finds that its magic potion consists of mostly ointments and creams.
27	16	99	87	34	67	28	Using hyaluronic acid to protect, heal, and repair tissue and skin is Anika's specialty. It also employs the acid in products to combat osteoarthritis.
142	26	61	2,132	36	63	11	Future retirees, salting away money in exchange for a guaranteed return in their golden years, have generated dividends for this fixed-rate annuity insurer.
245	31	42	1,660	**13**	91	17	Railroad chugs ahead with short-haul lines in the U.S. (the company transports oil from the Marcellus Shale and elsewhere), as well as in Australia and Europe.
50	24	73	78	39	58	22[A]	Going out of business since... 1888. This trust holds 900,000 acres from a bankrupt 19th-century railroad and makes money on oil leases, land sales, and more.
42	20	86	479	57	31	30	Cloud control: Repeat business—including for customers such as Siemens and Xerox—accounts for 87% of this IT and tech support company's sales.
37	25	65	291	26	82	67	Online investment and retirement adviser keeps adding clients (at companies such as Kraft and Kellogg); its customers have more than $1 trillion in assets.
35	20	89	111	49	41	18[A]	A strengthening economy helped this manager of mutual, exchange-traded, and private investment funds bolster revenues by 28% year-over-year.
133	26	60	2,574	34	69	28	Packaged-food company—brands include Almond Dream, Terra, and Celestial Seasonings—keeps riding the trend toward products with a "natural" aura.
92	22	80	1,846	23	84	11	Maker of servers and motherboards is yet another to profit from the cloud trend, beginning the year with an order backlog of $200 million.
99	20	91	644	30	78	9	Net 1's smartcard-based payment system allows people without bank accounts (and those sending cash to them) to exchange money securely offline.
310	22	79	2,320	32	74	17	AMC's trio of prestige and ratings—*Mad Men, Breaking Bad,* and *The Walking Dead*—have spurred it to six straight years of revenue growth.

* Through June 30, 2015. The S&P 500 returned 17.3% annually over the same period. **(Company returns lower than that of the S&P are bolded.)**
[A] P/E estimates for the current fiscal year are not available. The figure shown is the trailing 12-months P/E ratio.

of at least 15% annually over the three years ended on or before April 30, 2015. ¶ Companies that meet these criteria are ranked by revenue growth rate, EPS growth rate, and three-year annualized total return for the period ended June 30, 2015. (To compute the revenue and EPS growth rates, Fortune *uses a trailing-four-quarters log linear least square regression fit.) ¶ The overall rank is based on the sum of the three ranks. Once the 100 companies are identified, they are then reranked within the 100, using the three equally weighted variables. If there is a tie, the company with the larger four-quarter revenue receives the higher rank. ¶ Excluded are real estate investment trusts, limited liability companies, limited partnerships, business development companies, closed-end investment firms, companies about to be acquired, and companies that lost money in the quarter ended on or before April 30, 2015. In addition,* Fortune *excludes companies that have announced intentions to restate previously reported financial data, if these errors appear to have a significant impact. Also,* Fortune *excludes companies that lost money in the quarter ended May 31 or June 30, if the loss represents a deterioration in business conditions. The data are provided by Zacks Investment Research. The data checking process was aided by information provided by S&P Capital IQ, Hoover's, FactSet Research Systems, and Morningstar Document Research.*

SEIZING THEIR MOMENT

These fast-growing companies spent decades honing their business models; now they're reaping the benefits. (And if you own a home, wear makeup, or eat food, you may be benefiting too.)

OPEN THE FOLDOUT TO READ MORE

THE ASCENDANCY OF TECHNOLOGY in America's corporate hierarchy has conditioned us to equate "fast-growing" with "new." When you hear that a business has logged profit and sales growth of 15% or more for three years in a row (the table stakes for joining *Fortune*'s Fastest-Growing Companies list, page 97), it's easy to assume it's rising on an updraft of innovation—thanks to a groundbreaking chip, a must-have "wearable," or the Uber of something or other. Look more closely at many other fast growers, however, and you'll find stories of endurance rewarded—of businesses that performed just fine for decades before bigger shifts in the economy and culture helped them turbocharge their growth. Homebuilder NVR, for example, stuck with a cautious real estate strategy for 15 years before the housing crash and subsequent recovery made it pay off. Buffalo Wild Wings was a steadily growing restaurant chain for a quarter-century, but the rise of fantasy sports and the paleo diet enabled it to become an appetizer-fueled juggernaut. These companies and the two others featured here, water-management giant Ecolab and retailer Ulta Beauty, have near-term futures as promising as their recent pasts, and they demonstrate that in business, eye-catching blossoms are often attached to deep roots. —*Matt Heimer*

What if you could grow...

while

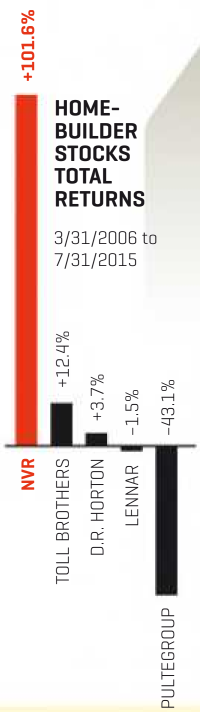
HOMES BUILT ON DEBT-FREE FOUNDATIONS

Unconventional real estate tactics enabled NVR to avoid being crushed by the housing crash.

By CHRIS MATTHEWS

FOUNDED 1980
CEO PAUL SAVILLE
HEADQUARTERS RESTON, VA.
EMPLOYEES 3,942
THE BUSINESS BUILDING AND SELLING HOMES IN WASHINGTON, D.C., BALTIMORE, PITTSBURGH, AND OTHER MAJOR MARKETS

NVR homes under construction in Ijamsville, Md.



SOURCE: S&P CAPITAL IQ

OF ALL THE INDUSTRIES to get hit hard by the financial crisis, America's homebuilders may have been dealt the most crippling blow. Builders are still wrestling with the financial consequences of their decisions during the housing bubble, including the debt they amassed while gobbling up land.

The nation's fifth-biggest homebuilder sidestepped most of this drama. NVR, based in Reston, Va., operates with a "just-in-time" model unique in the industry, wherein the firm options, rather than buys, the land it intends to build on. That strategy has helped keep the firm's balance sheet clean and its profit margins fat. "They're the only builder that never lost money throughout the whole downturn," notes Alex Barron, founder and senior research analyst of the Housing Research Center, and NVR's stock price reflects that stability (see chart at left).

NVR sold roughly 12,400 homes in the past 12 months—up 8% from the year before and good for $4.65 billion in revenue. The company has benefited from healthy sales in the Washington, D.C., and Baltimore metro areas, where it has market share of 20% and 30%, respectively. That kind of superior market share is key to NVR's "land-light" strategy. It's the leading builder in most markets where it operates (others include Pittsburgh and Philadelphia), which gives it the leverage to get developers to accept options rather than outright purchases. That, in turn, lets NVR avoid debt, explains Morningstar analyst James Krapfel.

NVR's aversion to debt may reflect a lesson learned. The company was formed when NVR Homes acquired Ryan Homes in a leveraged buyout in 1987. The debt load from that deal weighed down the company and helped drive NVR into Chapter 11 bankruptcy in 1990. Chairman Dwight Schar and current CEO Paul Saville, who succeeded Schar in 2005, were both with NVR during the ordeal. (The two executives did not respond to interview requests.)

There is a downside to a just-in-time strategy: Barron says NVR's unwillingness to own land could put a modest damper on its profits if housing sales return to boom levels. But demographics are on the company's side: Millennials, the largest generation in U.S. history, are reaching prime home-buying age—just in time, perhaps, to keep NVR's momentum alive.

THE (FOOD) SHARING ECONOMY

Diners at BUFFALO WILD WINGS stay longer and schmooze and spend more.

By JOHN KELL

FOUNDED 1982

CEO SALLY SMITH

HEADQUARTERS MINNEAPOLIS

EMPLOYEES 21,650

THE BUSINESS CASUAL DINING, WITH AN EMPHASIS ON WINGS, BEER, AND DIVERSIONS LIKE SPORTS AND TRIVIA THAT MAKE DINERS LINGER

SAME-STORE SALES GROWTH

SOURCE: S&P THE COMPANY

Diners at a Buffalo Wild Wings in Williston, N.D.

NVR: JON ELSWICK—AP; BUFFALO WILD WINGS: DERMOT TATLOW—LAIF/REDUX; ULTA: VIC MOSS—MOSS PHOTOGRAPHY/COURTESY OF ULTA BEAUTY

MOST RESTAURANT owners like diners who eat fast, opening up tables for new spenders. Sally Smith, chief executive of Buffalo Wild Wings, prefers it when people linger. Sports fans who stay long enough to watch an entire football game will buy more beers and wings than someone rushing through a 40-minute dinner.

That, Smith explains, is the recipe that has made the chain a hit—and of late, plenty of customers have come back for seconds. Over the past four years, Buffalo Wild Wings' sales have surged 147%, reaching $1.52 billion in 2014, and net income has grown at almost the same pace. Same-store sales, a closely watched metric for restaurants, have increased for an impressive 18 consecutive quarters. There are now 1,111 "B-Dubs" locations, triple the number of a decade ago. Investors are being rewarded too: The stock is up 360% over the past five years—on par with bigger, heavy-hitting chains like Panera Bread, Starbucks, and Chipotle.

Sports fandom isn't the only reason for the winning streak. Diet trends have favored the chain, as more Americans pivot away from processed foods and toward, well, meat. "That's our sweet spot. We've got protein," Smith says. Much of that is in wing form, of course, which can be a mixed blessing. Wing-related products account for 20% to 25% of total sales, according to research firm Dougherty & Co., and high dependency on a single menu item is risky for a restaurant. Wing prices are also volatile; in the most recent quarter they were 26% higher than a year earlier.

Smith, now in her 19th year as CEO, says wing woes are manageable; she has bigger strategic concerns. To keep growing, B-Dubs may need to compete more effectively with "fast casual" chains like Chipotle and Shake Shack—restaurants a step above fast-food chains but without the table service you'd get at a Buffalo Wild Wings. (According to research firm Technomic, fast-casual brands increased sales by 12.8% in 2014, to $30 billion, a growth rate nearly double that of any other restaurant segment.) Only one out of every five meals sold at Buffalo Wild Wings is served during lunchtime, when fast-casual thrives; to keep same-store sales growing, the chain will do more to target the midday crowd.

More expansion is a given: The chain aims to add 600 restaurants in the U.S. and Canada, while also reaching beyond North America—it opened its first franchises in Mexico in 2013. The company also made recent investments in two small fast-casual chains: Los Angeles–based PizzaRev and Rusty Taco, of Dallas. "What do we have to do to stay relevant?" Smith asks rhetorically. "That's probably what I think about most."

An eyebrow salon at an Ulta Beauty store in Vernal, Utah

CUSTOMERS LOOK GOOD; SO DO SALES

A tight focus on cosmetics and fragrances made ULTA BEAUTY a hot retail property.

By PHIL WAHBA

FOUNDED 1990

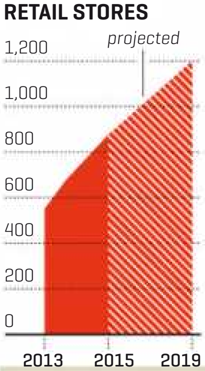
CEO MARY DILLON

HEADQUARTERS BOLINGBROOK, ILL.

EMPLOYEES 15,250

THE BUSINESS COSMETIC AND BEAUTY-PRODUCT RETAIL, ALONG WITH SALON-STYLE SERVICES, ALL UNDER ONE ROOF

U.S. ULTA BEAUTY RETAIL STORES



SOURCE: THE COMPANY

OFFER A BROAD ASSORTMENT of beauty products, cosmetics, and fragrances across the price spectrum. Add low-pressure but high-touch customer care. Then mix in salon services like hairstyling and brow tinting. Together, the elements make Ulta Beauty a one-stop beauty shop—and one of the hottest stories in retail.

The 800-store chain has found a profitable niche in the intensely competitive beauty market—between the Walmarts and Walgreens of the world, which cater to casual customers looking for bargains, and the Macy's and Neiman Marcuses, where women will pay a premium for pampering. The result has been staggering growth, especially by the sluggish standards of brick-and-mortar retailing. Ulta's sales have risen 82.5% since fiscal 2012 and are expected by analysts to hit $3.8 billion this fiscal year. Nor is Ulta running out of steam: The first quarter of 2015 saw it post its best same-store sales performance in three years, while online sales rose almost 50%.

CEO Mary Dillon says Ulta's singular focus keeps customers happy. "It's really a fun beauty destination," she says. "It's not a chore." The company has one of the most successful loyalty programs in retail, with 15.5 million members who account for more than 80% of its revenues.

But Ulta still faces stiff competition from bigger retailers that stock their cosmetics near the corn chips and kitchen appliances. The beauty market is growing fast—Euromonitor International forecasts growth of 5.3% a year through 2019—and it's a vital traffic generator for drugstores and department stores. Walgreens, Target, and CVS Pharmacy have made improved beauty sections a priority, while J.C. Penney is modernizing its 850 hair salons in partnership with *InStyle* magazine and rolling out more Sephora cosmetics boutiques within its stores.

To maintain momentum, Dillon unveiled a multiyear plan in 2014. Ulta's store fleet is set to reach 1,200 locations by 2019. Ulta is also doubling down on its high-end segment, rolling out boutiques for pricey brands like Lancôme and Clinique at 100 stores each and counting. And Dillon aims to get e-commerce up to 10% of sales by 2019, from 5% now. Her plans seem to have impressed Wall Street: Ulta's market value has risen 68% since she became CEO in 2013.

An Ecolab staffer tests the water at a food-processing plant.

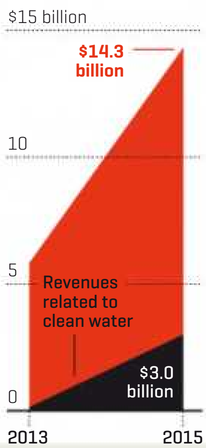
WATER WORKS

Expansion into water management has made ECOLAB a giant in clean and green tech.

By **JONATHAN CHEW**

FOUNDED 1923
CEO DOUGLAS BAKER
HEADQUARTERS ST. PAUL
EMPLOYEES 47,430
THE BUSINESS WATER AND ENERGY MANAGEMENT, WATER TREATMENT, SANITIZATION, AND FOOD SAFETY

ECOLAB REVENUES



SOURCE: THE COMPANY

THE WORLD'S LARGEST producer of steel, ArcelorMittal, had a problem: Water costs at its huge Galati mill in Romania were escalating, and its effluent water was polluting two nearby lakes. For help, the Indian giant called on Ecolab: The St. Paul–based company installed its 3D Trasar technology to act as a high-tech brain for the mill's cooling system, enabling huge reductions in energy use, corrosion, and waste.

The result: 2.2 billion gallons of water and $1.4 million saved in the past year alone—and another accomplishment for an environmental problem solver. "Their niche is helping institutions be more productive in a healthy and environmental way," says John Quealy, an analyst at Canaccord Genuity. (Ecolab also made our Change the World list; see page 61.) Founded in 1923 as a carpet-cleaning company, Ecolab expanded into restaurant sanitization and food safety, and then added water management to its evolving portfolio in 2011 when it bought water-treatment company Nalco for $5.4 billion, in the biggest acquisition in company history. Sales have grown by 31% annually since then, to $14 billion in 2014. CEO Douglas Baker singles out the company's 90% customer-retention rate and commitment to innovation (Ecolab holds more than 6,860 patents). "If we don't make our technology economically viable, we are not going to be successful in an economic sense or have a meaningful sustainability impact," he says.

Investors originally punished Ecolab's stock for the Nalco acquisition, as they fretted over Nalco's ties to the volatile oil and gas industry. But Ecolab now derives significant revenues from products that aim to make energy extraction less harmful, including ones that clean contaminants in oilfields and reduce pollutants in wastewater. Ecolab's acquisitions also position it to address the urgent issue of water scarcity. "What's happened in places like California has woken people up to the fact that we need to understand how we are using water and start thinking of its operational impact," says Lauren Kelley Koopman, a director in the sustainable business solutions practice at PwC. Ecolab is doing that thinking already.

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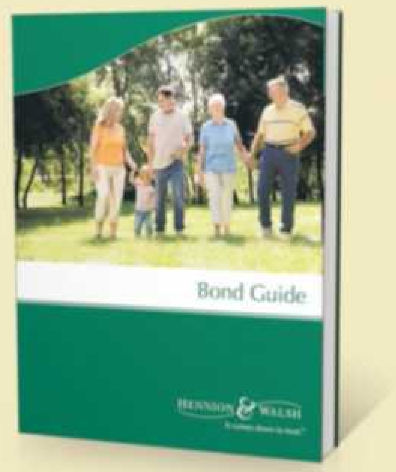

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BREAKING UP

GE IS RADICALLY STREAMLINING ITSELF. BUT ARE THE CHANGES RADICAL ENOUGH?

BY GEOFF COLVIN

IS HARD TO DO

WHEN JEFF IMMELT MADE the biggest announcement in his 14 years as General Electric's CEO this past April, he did it the same way he handles ordinary news, in an 8:30 a.m. conference call with Wall Street analysts. But this time the revelation was stunning: America's eighth-largest company would sell most of its biggest business, GE Capital—source of half its profits in previous years. The big unknown: How would Wall Street respond?

The first analyst to offer a comment was Scott Davis of Barclays, who for years had been slamming Immelt and his sorry record of wealth creation and who at one point had called for the CEO's ouster. But now his tone was transformed. "Congrats," Davis said on the conference call. "I know we have all given you a lot of crap over the years, but this is pretty good stuff for redemption. So thanks for that. That's my best apology I can make, by the way." And then, to general laughter: "You can keep your job a little longer, I guess."

When trading opened soon thereafter, GE's share price—which till then had slid a dismal 36% during Immelt's tenure—shot skyward, rising 11% by the close. The CEO had increased GE's market value by $35 billion in one day with a press release.

GE's move is the most dramatic example yet of a highly significant, six-syllable trend: deconglomeration. The world's biggest diversified conglomerates are finally realizing that combining entirely dissimilar businesses in one company almost never works. For the first time in living memory, GE is on the road to becoming a coherent whole, built around

industrial infrastructure businesses including power generation, locomotives, jet engines, and oil and gas production equipment. As chronically skeptical investors understood immediately, that should be good news.

GE Capital was founded in the 1930s to help consumers buy GE refrigerators and other appliances but had blossomed into a mammoth profit machine with almost no relation to the company's other businesses. It was America's seventh-largest bank. It owned office buildings and stores; financed supermarkets, fast-food franchises, and other mid-market businesses; loaned money to consumers; sold insurance; and at one time even made subprime mortgages. Disposing of its $200 billion of assets will take until sometime next year. Only the operations that help industrial customers buy GE products will remain.

As another step in deconglomerating, GE plans to sell its appliance business to Electrolux, though the U.S. Justice Department has sued to stop the deal; GE says it intends to "vigorously defend" it in court. And emphasizing its new focus with its biggest acquisition ever, the company agreed to buy the electric-power assets of France's Alstom for some $13 billion. The European Commission has expressed concerns, to which GE has proposed remedies. The commission promises a decision by Sept. 11.

Why do investors cheer when a company off-loads a huge, profitable operation? Because if that business is unrelated to the company's other businesses, it will probably be worth more to some other company that's in its business, or on its own. A seemingly sudden realization of that fact—plus a friendly environment for selling or spinning off assets—has sparked an epidemic of breakups: News Corp. separating its print properties from its entertainment businesses, eBay spinning off PayPal, Hewlett-Packard separating its PC and printer business from its corporate hardware business, United Technologies selling its Sikorsky helicopter unit to Lockheed Martin, and dozens more such moves.

The truth is that diversified conglomerates were always a bad idea. As a concept they were hot stuff in the 1960s, when investors stampeded to own ITT, Litton Industries, Gulf & Western, and LTV. All those companies are gone because they were worth more in pieces than as a whole. Yet conglomerates persisted, despite the evidence. McKinsey research finds that from 2002 to 2010, conglomerates' median total annual return to shareholders was 7.5%, vs. 11.8% for more focused companies.

"YOU CAN KEEP YOUR JOB A LITTLE LONGER," ONE ANALYST TOLD IMMELT AFTER THE CEO ANNOUNCED THE GE CAPITAL SALE.

The world mostly shrugged at the breakups of Gulf & Western and Litton. But GE has always been different. It's an American institution, founded by Thomas Edison and revered for virtually its entire existence. Even today its leadership-development programs earn it the No. 1 spot among Towers Watson's Top Companies for Leaders. So it's disorienting to realize that even GE has been, overall, a typical crummy conglomerate.

Its conglomerate period began in 1945, after World War II, when the company expanded its plastics business and became, over time, a major player in jet engines, nuclear reactors, computers, missiles, satellites, and other widely diverse businesses. From then until now, GE's total shareholder return has slightly beaten the S&P 500's—not so bad a record, it seems. But look closer. All of that slender outperformance and much more is attributable to one CEO, Jack Welch. Remove the Welch effect by assuming GE had matched the S&P during his tenure, and the stock would have massively underperformed the S&P over its 70-year conglomerate period (see chart). Except for a once-a-century managerial phenomenon, GE has performed no better than many other conglomerates that were broken up long ago.

You can see why investors were delighted that GE is finally abandoning the strategy of sprawl. The puzzle they face now is how to evaluate what Immelt has called "the new GE." How much do the remaining parts really have in common, and what are their prospects as a combined entity?

GE is now far more focused than it has been in many decades. The most obvious commonality of its remaining units: spinning. Jet engines, power turbines, motors, drives, the inside of a locomotive, a CT scanner—they all spin. The technology overlaps are valuable: For example, carbon-fiber-reinforced composites developed for jet-engine fan blades are used in GE's wind-turbine fan blades, and ceramics developed for electricity-generating turbines are used in jet engines.

A more important commonality is not so obvious: Virtually everything GE will do after its reordering contributes to an economy's basic physical infrastructure. The company's strategists observed that the world's advanced economies are scarcely growing, while the developing and even some non-developed ones are growing fast; though China and others are slowing, together they still create more new GDP every year than do the more established economies. And those nascent economies need infrastructure—electricity above all, trans-

PREVIOUS SPREAD: PHOTOS VIA GETTY IMAGES AND COURTESY OF GENERAL ELECTRIC

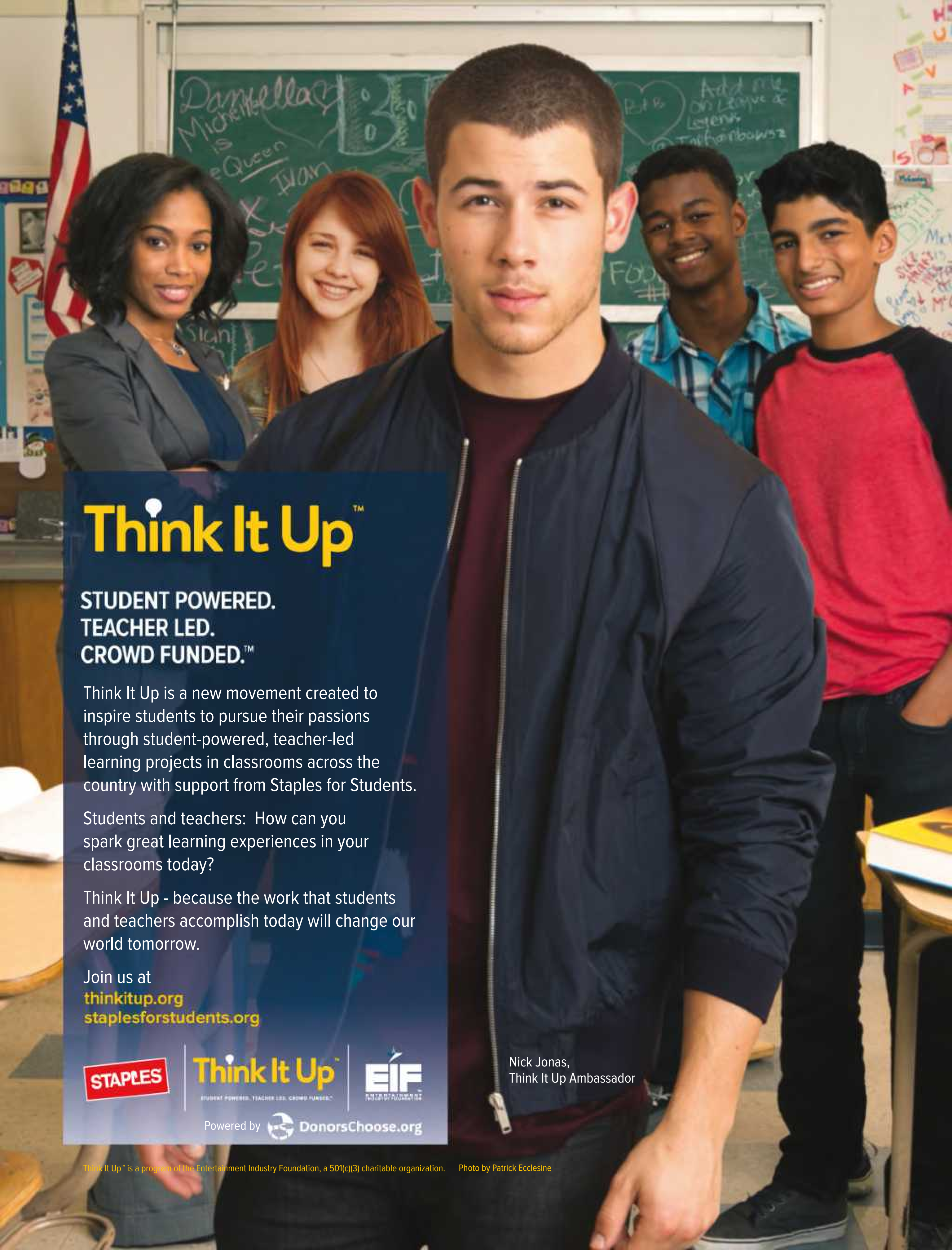
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Photo by Patrick Ecclesine

port across land (rail is most efficient) and in the air, oil and gas, public lighting, and basic health care.

Often all those goods and services are bought by one customer, a government, or companies that are officially or unofficially government-controlled. GE wants to be, among other things, the one-stop shop for nations entering the developed world. "We've been able to speed our efforts in individual markets," says Beth Comstock, who runs GE's business-innovations unit. "Every business doesn't individually have to figure out, 'How do we all go to Ethiopia?' for example. An advance team goes out and understands how we pull all the pieces together."

Do those factors make for a coherent business? Increasingly they do. Consider, for example, a factory that the company opened this year in Pune, India. It makes components for four different GE operations—jet engines, locomotives, wind turbines, and water-treatment units—the first time a factory has ever done that. Some of the plant's equipment, such as 3-D printers and laser inspection technology, can be shared. Making components for four businesses in one plant is more efficient than building freestanding facilities for each one. It's also the first test of what GE calls the "brilliant factory" concept, with the plant's equipment, suppliers' machines, and distributors' machines all communicating continuously on what GE calls the industrial Internet. "You'll see that more and more," says Comstock. And the plant contributes significantly to the "Make in India" campaign in the world's second-largest developing economy. Prime Minister Narendra Modi attended the opening.

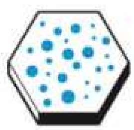
GE has always tried hard to transfer useful ideas among its many units. The question is whether the benefits outweigh the drawbacks of housing diverse businesses under one roof. With the company's portfolio now more focused, the odds improve. GE calls the sharing concept the GE Store, and it's one of the company's main arguments for why its parts are more valuable together than separated. "Let's say there's a subsea development of a field," says Lorenzo Simonelli, who runs the oil and gas business. "We're working with the GE Store on the large motors that have to come from energy management, with power and water on the gas turbine, with aviation because we're going to need aeroderivatives [gas turbines based on jet engine technology]. We're working through the Store with health care because there's going to be pipeline inspection"—using X-ray technology—"and potentially with financing, which is the vertical that we have through GE Capital that remains. On large-scale projects, the GE Store really comes to life."

Although GE initially becomes smaller by jettisoning most of GE Capital, its new strategy is grand in scale. "Until now, no company has ever attempted to become a one-stop source for helping modernize undeveloped and underdeveloped regions of the world," says Nicholas Heymann, an analyst at William Blair who has covered GE for some 30 years. "To attempt this was simply unfathomable for even the most ambitious and well-resourced companies in the world." GE is telling investors they'll have to wait two years to start seeing a financial payoff. That's probably why the stock, after spiking on the announcement, has drifted back down. Investors are prudently waiting for evidence of success.

THE CASE FOR SYNERGY?

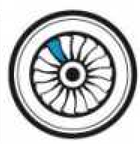
Technology and materials developed in one GE business have often found a use in another over the years. But on the whole, experts say, such cross-pollination is less common in conglomerates than many think.

Ultrasound technology developed to look inside people is being used in GE factories to inspect welds, forgings, and castings. Other health care imaging technology is used to inspect oil pipelines.



Ceramics that were originally intended for electricity-generating turbines are being used in jet engines.

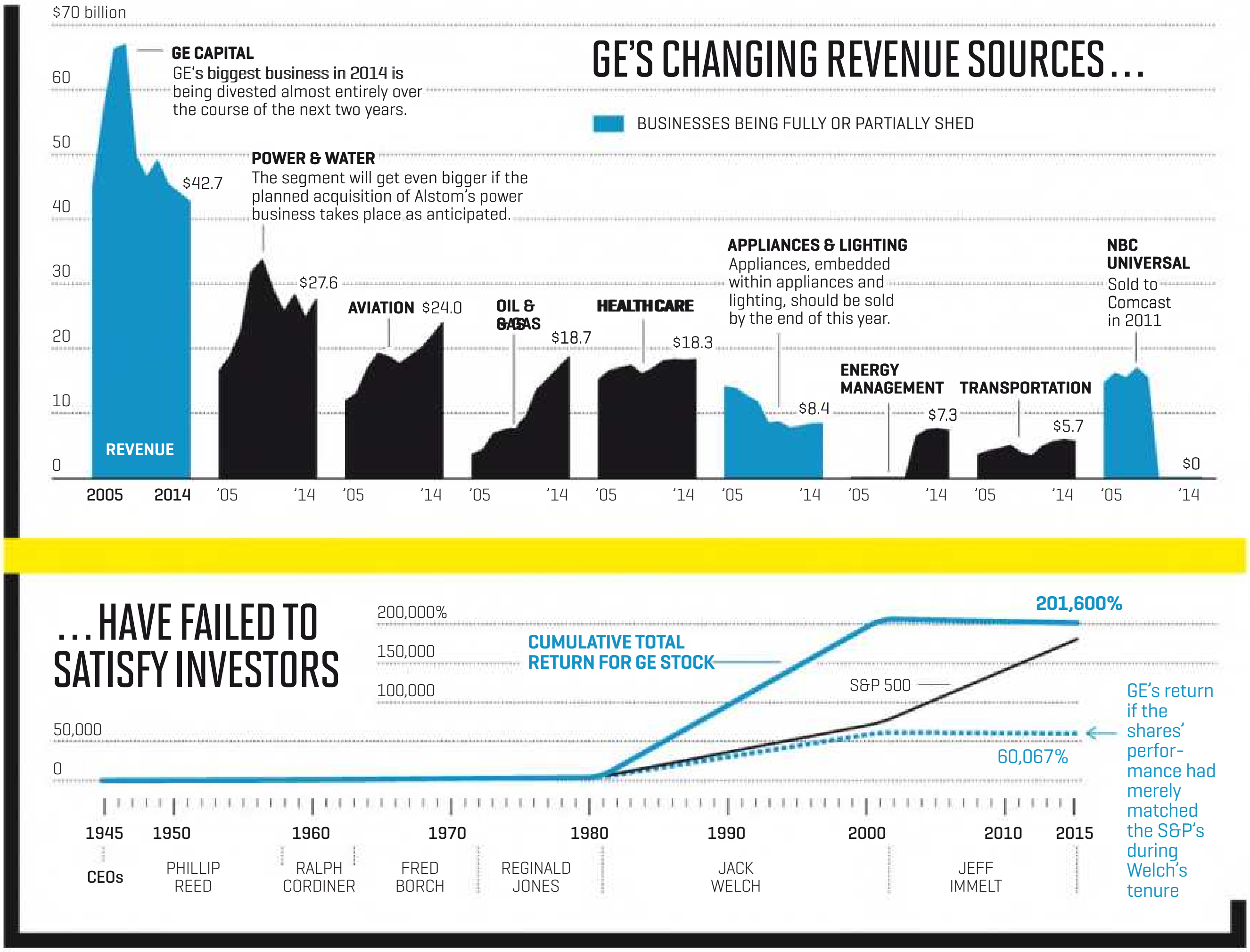
Technology developed for the oil and gas business helped the company beat competitors in producing a locomotive that meets the latest emissions requirements.



Carbon-fiber-reinforced composites first employed for jet-engine fan blades are being used in GE's wind-turbine fan blades, offshore oil drilling impellers, and magnetic resonance imaging systems.

Alternators developed for jet engines are being used in motors for pumping oil from the ground.

Additive manufacturing technology created in part for jet-engine components is being used to develop control valves for oil and gas equipment.



GRAPHIC SOURCES: BLOOMBERG; UNIVERSITY OF CHICAGO CENTER FOR RESEARCH ON SECURITIES PRICES; STANDARD & POOR'S

The corporate transformation is so pervasive that GE is even altering its famous culture. "We could be doing all of these incredibly important and strategic portfolio shifts, and if the culture doesn't simultaneously shift to reflect what's happening in the world, then we may be at odds," says HR chief Susan Peters. They call the new ideal a culture of simplification, based largely on the 2011 book *The Lean Startup* by Silicon Valley entrepreneur Eric Ries (with a new foreword by Jeff Immelt). The goals are speed, empowerment, and minimal bureaucracy, a tall order in a 137-year-old company with 305,000 employees, but necessary.

Let's assume the corporate refocusing comes off as planned. GE will still be a fairly diverse company. Part of that is unavoidable. For example, the company is becoming a major player in the software business—seemingly a very distant cousin of those heavy industrial businesses—because it must. Google, IBM, and other giants are offering to analyze the massive data streams pouring out of industrial equipment, potentially cutting GE out of a high-value service for its customers. So GE is playing offense with a 14,000-employee software operation and a newly announced service that performs predictive analytics on anyone's equipment, not just GE's. Integrated with the other businesses, software (forecast 2015 revenue: $5 billion) is looking like an excellent performer. It earns 50% operating margins, requires little capital, and is growing fast.

As dramatic as GE's new focus is, you can't help asking whether it goes far enough. PET scanners and undersea oil-well blowout preventers are still pretty different, for example. Could more changes lie ahead? GE Lighting had a FOR SALE sign on it before the financial crisis, and Credit Suisse analyst Julian Mitchell calls it a "logical candidate" for divestiture. But as LEDs become connected devices, GE says the business makes sense in an industrial infrastructure portfolio. Barclays' Davis has observed that "some investors want a spin-off of medical," but GE has not breathed a syllable to encourage them.

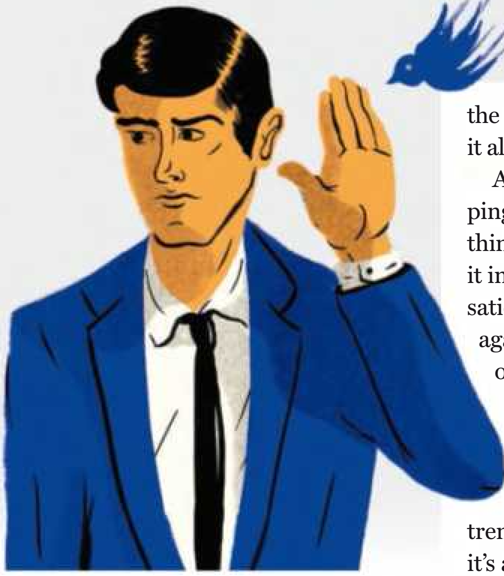
Bottom line, will the deconglomerated GE work? The strategy sounds plausible and encouraging, but GE strategies have always sounded that way. What we can say for sure is that GE is transforming itself more fundamentally than it has done in at least 30 years, and the movement is all in the right direction. Shareholders should hope the company achieves its newly stated goals swiftly and adeptly—and then goes even further.

FEEDBACK *geoffrey_colvin@fortune.com*

WHILE YOU WERE OUT

Opting Out of 'the Conversation'

What's everybody talking about today? #Whocares? Not me anymore. And I'm loving every minute of it. *By Stanley Bing*



HOW MANY TIMES has this happened to you? You're with a bunch of people, and they're talking about *Game of Thrones* or the new Zinfandels and you're totally lost. It used to be because you were culturally tone-deaf or just plain stupid. But no, in the Digital Age it's worse. Now you're not "part of the conversation." And you feel shame. Well, take heart. I've made an important decision on this subject that may just offer a path for you too.

Here it is: I don't want to be part of the conversation. That's right. Leave me out of it. I'll get along just fine, I think. In fact, I'm looking forward to it.

The conversation we're all supposed to be part of is the evanescent topic du jour—the mandatory chatter at what used to be called the watercooler. At this point, however, that vanished social locus has expanded to fill all available analog and virtual space. And now whatever makes up "the conversation" blots out the sun, casting the rest of the mental landscape into night thanks to the ubiquity of our intrusive hardware.

Let's look at some of its constituent parts.

Smart refrigerators, for instance. This is intimately linked to the "Internet of things," which, as part of the "smart home," is a very big part of the conversation. I'm tired of it. I don't want to talk about lightbulbs that are more intelligent than I am. I don't care to delve into the future of thermostats. You can go on about that stuff without me.

Also drones, both corporate and private. Have fun imagining a future where little aircraft buzz above our heads delivering fresh baby kale and AAA batteries to those in need, and taking pictures of our daily activities so the voracious data monster can serve us better, or just because we look funny in our swimsuits. Can anything stop it? Certainly not. That doesn't mean I want to hear about it.

Next, the stupidity, greed, and fear that define that great and terrible Oz behind the curtain of our economy: Wall Street. It's up! It's down! Know why? I don't. Neither do you. Yet people talk about it all the time, because if you don't, you're not part of the conversation. Guess who'll be tuning it all out from now on? That's right: me.

And I will particularly not miss skipping endless speculation about anything having to do with China, because it immediately devolves into a conversation about, that's right, Wall Street again, as the great irrational engine of capital heaves up a hair ball every time anybody over there sneezes.

Not to mention Greece and Spain. I told you not to mention them!

Which brings us to what's trending on Twitter. Like, right now it's a picture of a cute young woman who took her high school graduation picture at Taco Bell, and a shot of a floating manatee. I can live without them. I also don't need to converse about who is being slowly roasted over the open fire of digital outrage today. Oh, and Bitcoins. You can shut up about those too, at least to me. Crooks. The Duggars? I can't even.

Wow! What a rush! I can feel my brain clearing, the wind whistling between my ears where all that residual effluvia once took up space!

Hey, I can't believe I almost forgot. I would certainly be remiss if I didn't opt out of any further conversation about He Who Shall Not Be Named and his effect on the Republican Party. It's possible it won't even be an issue by the time you read this. But actually? I doubt that. Sometimes the conversation takes on a life of its own no matter what any of us try to do to control it. Or ignore it.

On the other hand, maybe by now none of these conversations are the conversation we're all supposed to be having, because that's the nature of "the conversation." It swirls. It lands. It eats everything. Then it moves on. Like locusts.

That said, there's no reason we can't talk about other things. Let's get started.

Um ... you go first.

Follow Stanley Bing at stanleybing.com and on Twitter at @thebingblog.

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